

The background is a collage of images related to utilities and transportation. It includes a railroad crossing sign, a road with a white line, a person working on a large pipe, and a close-up of a hand holding a tool. The text is overlaid on this collage.

Utilities and Transportation Commission

2007 - 2009 Strategic Plan

WASHINGTON
1905 **UTC** 2005
UTILITIES AND TRANSPORTATION
COMMISSION
Celebrating 100 Years

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UTC Mission, Goals and Values

Mission

The UTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable and safe.

Goals

Protect life and property

Support strong stable industries

Use public resources efficiently

Protect consumers from poor service and unfair rates

Develop, recruit retain, and value a high quality, diverse workforce

Promote environmentally responsible energy production and services

Values

Respect

Integrity

Cooperation

Professionalism

Continuous Improvement

Trust

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Who We Are

The Utilities and Transportation Commission 1905-2006

The Utilities and Transportation Commission (UTC) regulates the rates and safety of public utilities and transportation companies in Washington. It regulates industries – including telecommunications, natural gas, electricity, solid waste collection and household goods moving that play a large economic role for Washington State’s economy. UTC regulated companies had almost \$5 billion in revenues in 2005. Its decisions affect businesses and individual citizens for whom utility bills can be a significant part of their budget.

Public utility commissions arose in the late 19th century as mediating institutions¹ to protect ratepayers from abuse by monopolies, particularly abuses by railroads. (In fact, the UTC recently celebrated the centennial of its first regulatory predecessor, the Washington Railroad Commission.) Before this, legislatures granted entry to an industry on a case-by-case basis and set rates that were frequently subject to litigation. However, legislatures eventually found themselves faced with several challenges:

- **Fairness and consumer protection** - balancing ratepayer interests (for example, in reasonable rates and quality service) against legitimate industry interests in earning a fair return on investment.
- **Information** - the challenge of obtaining and analyzing increasingly complex fiscal and operational data from regulated companies to review rates and service quality.
- **Administration** - efficiently processing requests from regulated companies.
- **Knowledge** - staying abreast of industry, technology and policy changes, developing technical expertise, advising decision-makers as experts and adapting regulation as industries evolve.

Legislatures created public utility commissions to meet these challenges.

This strategic plan describes the work of the UTC, recent developments in the industries it regulates and its plan for improving its already high performance in meeting these challenges in the 2007-2009 biennium.

(Footnotes)

¹ The UTC is a mediating institution: an organization created to “deal with hard choices . . . that involves a measure of political insulation” for policy makers:

[As] entrenched groups become increasingly adroit at protecting and furthering their interests, [a] challenge for public management is how to make hard choices that moderate the power of such groups in ways that take cognizance of broader, less powerful interests. . . . Mediating institutions [are] organizational approaches that . . . insulate certain policy choices from the hottest of hot politics.

Richard P. Nathan, ““Mediating Institutions’ Needed for the Nation’s Toughest Public Management Challenges,” *Kennedy School of Government*

Management Insights, *Governing.com*, March 22, 2006. <http://www.governing.com/manage/mi/6ins0322.htm>.

About the UTC

The UTC is a three-member board, appointed by the Governor and confirmed by the Senate to six-year terms, that regulates the rates, services and practices of privately-owned utilities and transportation companies. Current commissioners include Chairman Mark Sidran, Commissioner Patrick Oshie and Commissioner Philip Jones, assisted by more than 150 staff, including economists, accountants, engineers, consumer affairs specialists, investigators and policy specialists. The UTC regulates electric, telecommunications, natural gas, water and solid waste collection companies, pipelines, private commercial ferries, buses, motor carriers and low-level nuclear waste disposal. The UTC's most visible regulatory activity may be reviewing changes in customers' utility rates, but its economic regulation also includes:

- Approving the rules and requirements for receiving service.
- Prescribing accounting formats, how regulated companies keep their financial records and monitoring financial reports.
- Approving mergers between companies.
- Approving entry to some industries.
- Resolving disputes between parties.
- Supervising service quality.
- Resolving customer complaints.

The UTC also regulates the safety of utility and transportation services. It inspects pipelines and railroads, takes enforcement action against unsafe operators or services and provides technical assistance to regulated companies. The UTC tracks and manages more than 2,000 filings a year by regulated companies and processes licensing and insurance applications for more than 4,000 trucking firms.

The UTC's activities roughly correspond to all three branches of government: legislative, judicial and executive. It regularly holds legislative-style hearings, providing public notice and the opportunity to be heard, to consider company or staff proposals and adopts rules.

The UTC also functions as a fact-finding tribunal, holding judicial-style hearings on contested rate cases and complaints. Commissioners preside at these formal hearings assisted by administrative law judges. Parties are represented by attorneys, witnesses provide testimony under oath and sessions are transcribed by a court reporter. UTC staff, represented by the Office of the Attorney General (AGO), provides independent advice, analysis and recommendations based on their review.

In these hearings, residential ratepayers are represented by the AGO's Office of Public Counsel. Industrial customers and public interest groups regularly intervene in commission proceedings. Commissioners must reach a decision based on evidence in the formal record of the hearing and decisions are embodied in written orders that contain specific findings of fact and conclusions of law. Decisions of the UTC may be appealed to Superior Court. The AGO defends commission decisions on appeal.

Finally, the UTC is an administrative agency in Washington State government. It works with the Governor, the Legislature and other state agencies to implement legislation and executive orders, prepare reports and studies and administer efficiently its statutory responsibilities. UTC

commissioners and staff members participate actively in a variety of national and regional forums to discuss and develop sound public policy related to the industries they regulate.

The Changing Regulatory Environment

The UTC, like all state regulatory commissions, has operated in an environment of constant and often unpredictable change due to policy developments at the federal level and economic conditions impacting industries inside and outside Washington State. For example:

- Federal deregulation of the trucking industry in 1993 caused a drastic reduction in the UTC's responsibilities and work force.
- During the late 1990s, Washington State moved cautiously to explore the consequences of electricity restructuring. Even so, Washington utilities and customers were whipsawed by unprecedented energy price spikes in the winter of 2000 caused by California's failed electricity deregulation experiment. The commission moved quickly to protect large industrial customers whose rates were pegged to wholesale market indices, as well as electric and gas utilities that bought power on the highly-volatile spot market.
- Over investment in the telecommunications industry from 2000 to 2002 led many competitive local exchange companies to face bankruptcy, exit the market or merge. This reduced competitive alternatives despite UTC efforts to increase competition through streamlined regulation.
- In 2001, the Federal Energy Regulatory Commission (FERC) announced plans to implement a "Standard Market Design" (SMD) for nationwide electricity restructuring. The commission acted immediately to articulate its interests, form coalitions with other stakeholders and persuade Congress to recognize regional differences.
- In 2003, the Federal Communications Commission (FCC) ordered state public utility commissions to assess wholesale telephone market conditions in their states. The UTC promptly instituted hearings to carry out this mandate. However, seven months later a federal appeals court held that the FCC did not have authority to delegate to states, forcing the UTC to suspend its proceeding.

These real-world examples show that the commission must be flexible and adaptive, with capacity to react to sudden changes due to factors outside its control. Industry-specific factors in its external environment are discussed below.

Program Descriptions

The Commissioners and Advisory Staff

Three commissioners regulate private utility and transportation businesses in the public interest by reviewing company filings, making decisions on contested matters, adopting rules for regulated industries and advocating Washington's interests before national and regional forums.

The commission is a quasi-judicial state agency.

The commissioners are supported by policy, legislative relations and public affairs staff who are responsible for maintaining the external relationships of the commission, including relationships with federal regulatory agencies, state and federal legislative bodies and the general public. Policy staff provide substantive advisory support to the commissioners and to

administrative law judges in contested cases before the commission. (In contested cases the commissioners may not consult with regulatory staff, which acts as an independent party of the case.) Policy staff coordinate the commission's state and federal legislative activities; coordinate policy development with the Governor's Office; analyze and prepare responses to policies put forth by federal regulatory agencies (FERC, FCC, STB and others); and research emerging issues and changes in the regulatory environment caused by new economic, financial, institutional and technological trends.



Legislative work includes development of commission request legislation and coordination of the commission's response to legislative proposals offered by others. During legislative session, staff and commissioners meet regularly with lawmakers to provide information on commission activities and legislation impacting the commission.

Public Affairs has principal responsibility for assisting members of the media and providing public outreach regarding commission activities. Public Affairs staff advises the commissioners and regulatory staff about the interests and concerns of the press and lead the plain talk initiative for the agency. Human Resources provides consultation and services in recruitment, training and development, orientation and associated personnel functions.

The commission conducts many formal case proceedings each year, including general rate increase cases, complaints, tariff investigations and other investigations. Attorneys in the Administrative Law Division sit as administrative law judges, presiding over these proceedings with the commissioners or alone when the commissioners are not available to preside. The attorneys also serve in a legal policy role, advising the commissioners on matters of general regulatory policy and as legal advisors in rulemaking proceedings.

State law requires the commission to conduct adjudications in disputed ratemaking matters and in complaints filed by the commission or others against regulated companies. Administrative law judges ensure compliance with procedural requirements of the Administrative Procedure Act and with constitutional requirements of due

process, conduct hearings and ensure that the notice and other administrative requirements of law are met. The judges provide mediation and arbitration services and facilitation services to parties engaged in disputes that are within the agency's jurisdiction. The administrative law division also advises the commissioners on issues relating to adjudications, rulemakings and open meeting matters and provides accounting advice when needed about ratemaking issues in adjudications. The division is actively involved in approximately 50 proceedings per year, preparing and serving some 600 orders, notices and other communications per year relating to those proceedings, including about 200 orders.

Safety and Consumer Protection Division



The UTC's **Safety and Consumer Protection Division** conducts all of the UTC's safety oversight and most of its consumer protection activities. The UTC has safety oversight of three industries: pipelines, railroads and transportation companies regulated for entry or rates and consumer protection responsibilities over all regulated companies. There are 50 employees assigned to the division, which includes the five sections described below:

The UTC's **Business Practices Investigations Section** safeguards Washington residents from abusive, unfair or misleading practices by regulated utility and transportation companies by enforcing the commission's consumer protection and registration rules.

The activities of this section include:

- Investigating regulated companies that appear to be violating commission rules or other requirements.
- Providing technical assistance to companies.
- Recommending enforcement action to the commission for companies unable or unwilling to comply.
- Researching specific policy issues and publishing reports internally.

In 2005, the section conducted 165 investigations and found and corrected more than 3,400 probable rule violations. The business practices staff is comprised of compliance specialists. The section's current annual budget is \$243,000.

The UTC's **Consumer Affairs Section** ensures regulated companies treat consumers fairly and that these companies are in compliance with commission consumer laws, rules and policies.

The activities of this section include:

- Helping consumers understand their rights and responsibilities and make informed choices about their use of essential services.
- Working with consumers to resolve complaints involving regulated companies.
- Taking public comment on matters before the commission.
- Providing technical assistance to regulated companies.
- Ensuring company compliance with laws, rules, policies and tariffs.
- Recommending commission action on filings related to consumer issues.



In 2005, the section handled more than 22,000 public contacts, investigated 2,600 consumer complaints and found and corrected more than 3,700 probable rule violations. The section also saved Washington consumers more than \$700,000 in the past two years. The consumer affairs staff is comprised of consumer specialists, regulatory analysts and a graphic designer. The section's current annual budget is \$1.1 million.

The UTC's **Motor Carrier Safety Section** protects the public by ensuring that transportation companies' vehicles, drivers and operating practices meet established state and federal safety operating standards. The section conducts safety and entry investigations involving the 476 private transportation companies regulated by the commission. These include bus, airporters, household goods and solid waste hauling companies.

The activities of this section include:

- Conducting safety audits, called compliance reviews, of company employees, operations and vehicles.
- Investigating complaints against transportation companies.
- Conducting vehicle safety inspections.
- Investigating allegations that unregistered companies are illegally providing regulated services.
- Providing technical assistance to companies.

In 2005, the section conducted nearly 1,300 inspections and found and corrected nearly 2,600 probable rule violations. The motor carrier safety staff is comprised of motor carrier safety inspectors certified by the Commercial Vehicle Safety Alliance and administrative employees. The section's current annual budget is \$463,000.

The UTC's **Pipeline Safety Section** ensures public health, safety and environmental quality by working closely with pipeline operators, local governments and communities on matters related to pipeline safety.

The activities of this section include:

- Conducting inspections of hazardous liquid and natural gas pipeline companies' practices, operations and facilities.

- Following-up on identified problems to confirm company makes needed corrections.
- Improving safety laws and regulations.
- Working with companies and local governments to improve public awareness of pipeline safety.

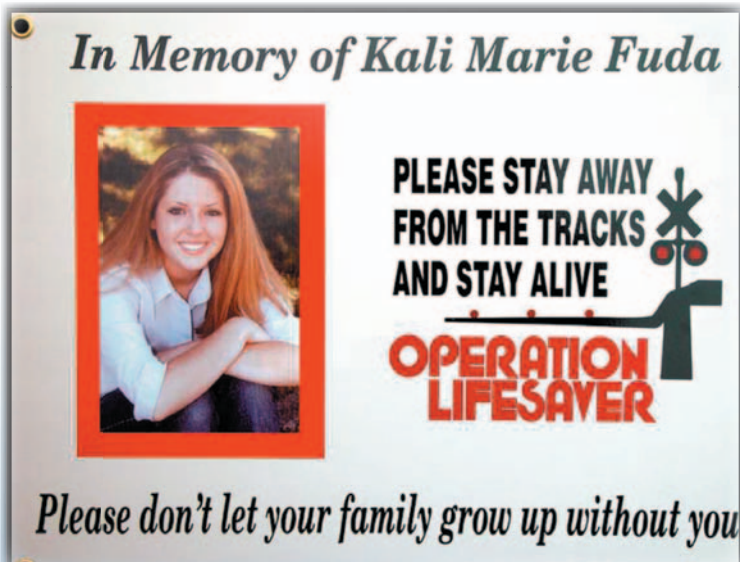


- Responding to and investigating pipeline incidents.
- Providing technical assistance to pipeline operators, local governments and communities.
- Enforcing state and federal laws and rules in a fair and equitable manner.
- Maintaining a pipeline geographical information system (GIS) to support local governments and UTC inspection program.

In 2005, the section conducted 163 inspections and found and corrected nearly 140 probable rule violations. The pipeline safety staff is comprised of pipeline engineers, policy specialists, GIS analyst and administrative employees. The section's current annual budget is \$2.1 million.

The UTC's **Rail Safety Section** protects the public by ensuring that regulated railroad companies meet established state and federal safety standards and that the public understands the dangers of traveling on or near railroad tracks.

- Participating with the Federal Railroad Administration to inspect railroad tracks, signals, hazardous material shipments and railroad operating practices.
- Inspecting each public crossing every three years and working with railroads, cities and counties to make sure Washington's public road-railroad crossings are safe.
- Analyzing and acting on requests by railroads or road authorities to open or close railroad crossings or change the signage, signals or configuration of crossings.



- Brokering surplus crossing signal equipment to achieve cost savings and increased signal deployment among financially challenged short line railroads.
- Coordinating the activities of Washington Operation Lifesaver, a non-profit public education program.
- Providing grants for crossing improvements and pedestrian trespass prevention projects.
- Investigating train and vehicle or pedestrian collisions.
- Providing technical assistance to railroad companies and local road authorities.

In 2005, the section conducted nearly 1,200 inspections, finding and correcting nearly 1,200

probable rule violations. The rail safety staff is comprised of rail safety inspectors, policy specialists and administrative employees. The section's current annual budget is nearly \$900,000.

Regulatory Services Division

Telecommunications

Regulating telecommunications companies involves reviewing tariffs, contracts and interconnection agreements; removing regulation as competition increases; reviewing mergers and transfers to protect captive customers and competition; monitoring the financial performance of approximately 20 companies that continue to have a captive customer base; providing leadership on policy and operational issues within the telecommunications industry; helping telecommunications competitors resolve their disputes informally; and, when necessary, participating in formal arbitration and enforcement cases.

Expected Results –Telephone service is universally available and fairly priced; telecommunications industry is competitive; telecommunications companies invest to provide reliable service and advanced services; consumers are protected from unfair business practices; and regulatory issues are resolved promptly and fairly.

In 2005, the telecommunications section reviewed 208 tariff filings, 88 contracts, and 88 interconnection agreements. It led two agency rulemakings and reviewed 24 petitions for exemptions or other action. The major cases in 2005 were: (1) Verizon general rate increase; (2) Verizon/MCI merger; and (3) Sprint local telephone spin-off. The section includes 15 positions and has an annual budget of \$1.3 million.



Energy

The commission regulates rates and services of three investor-owned electric utilities and four investor-owned natural-gas distribution companies. The agency reviews general rate changes, fuel and power cost adjustment filings, applications for accounting orders and exemptions to rules and other filings. It also works with utilities and stakeholders on energy resource planning, service reliability and other issues.

Expected results – Rates for regulated services are fair; service is affordable; utilities have a reasonable opportunity to earn a fair return and make adequate investments; service is reliable and safe; and utilities make planning decisions that balance financial and environmental concerns.

In 2005, the energy section reviewed 95 tariff filings, 24 petitions for rule exemptions, accounting orders, securities filings and other matters, six property transfer requests, and three integrated resource plans. It participated in two agency rulemakings. The major cases and projects in 2005 were: (1) Pacificorp general rate case; (2) Puget Sound Energy power cost only rate case; (3) Avista general rate case; and (4) Puget Sound Energy integrated resource plan. The section includes 14 positions and has an annual budget of \$1.2 million.

Water, Solid Waste and Transportation

The Water, Solid Waste and Transportation Section reviews the rates and practices of an eclectic group of industries that are subject to regulation by the agency. The section includes 10 positions and has an annual budget of \$804,000.

Water

The section reviews requests for general rate increases and surcharges for about 60 water companies that collectively serve about 80,000 customers statewide. It coordinates its work with the Department of Health, which is responsible for water quality and quantity issues. The section reviewed 93 tariff changes, property transfers and other filings in 2005. The major cases in 2005 were: (1) H&R Waterworks reorganization and general rate increase; (2) Roche Harbor improvement charge; and (3) Rimrock/Gamble Bay receivership.

Solid Waste

The commission regulates rates, service areas, safety and business practices of solid waste collection companies. This includes authorizing entry to the industry by issuing monopoly “certificates of convenience and necessity,” setting fair rates for residential and commercial garbage and residential recyclable collection; and resolving billing and service problems. The UTC also works with counties and cities in developing local solid waste management plans, with collection companies to implement the plans and with the Department of Ecology. It does not regulate operations in cities that contract for collection or provide municipal solid waste collection service.

In 2005, the section reviewed 82 tariff revisions, 39 fuel surcharge filings and four petitions for exemption. The biggest cases were a general rate increases by Murrey’s Disposal, Yakima Waste Systems and Kent Meridian Disposal.



Transportation

The UTC provides economic regulation for several industries under Title 81 RCW, including bus companies, household goods carriers, airporters, low-level radioactive waste disposal sites and commercial ferries. This generally includes permitting firms to do business, setting rates and reviewing safety and business practices.

In 2005, the section reviewed 108 fuel surcharge filings and 53 tariff revisions. The section’s major transportation projects in 2005 were: (1) updating the household goods tariff; and (2) rulemaking to revise the auto transportation (bus) rules.

Administrative Services Division

The UTC's **Administrative Services staff** provide high quality and innovative services to UTC staff and external customers in the following areas:

- **Information Services** provides reliable, secure, high-quality hardware, software and services to make UTC employee work and external customer business easier, faster and more effective.
- **Financial Services** promotes fiscal responsibility and ensures accountability to the stakeholders of the UTC and the citizens of Washington.
- **Facilities Management** facilitates a productive and safe working environment by planning and coordinating facility maintenance and improvements and by providing efficient purchasing, mail and meeting services.
- **Safety and Risk Management** ensures that agency employees are provided a safe work environment, agency emergency management planning is up to date and that responsible risk management practices are followed.
- **Licensing Services** registers telecommunications and motor carrier companies to ensure that they are operating in a safe and financially responsible manner. Regulated industries include: telecommunication companies, solid waste, charter/excursion, auto transportation, non-profit transportation services, household goods carriers, common carrier truckers and commercial ferries.
- The **Records Center** and **Tariff** sections maintain the commission's official files and records, price lists, tariffs, contracts, less than statutory notice and petitions. Additionally, staff review, docket and distribute filings, provide adjudication services, open meeting support, archive documents and respond to public requests.
- **Library Services** locates and provides information and documents needed by staff to efficiently and effectively do their jobs.



External Conditions and Trends

Energy Regulation

The UTC regulates three electric investor-owned utilities (IOUs) serving 2 million customers, with revenue of \$1.9 billion (2004) and four natural gas utilities serving 1.1 million customers, with \$1.2 billion in revenue (2004). Regulatory work includes reviewing rates, monitoring service reliability and resolving customer complaints.

Partners and stakeholders

- **Bonneville Power Administration (BPA):** The BPA is a federal power marketing and transmission agency that owns 50 percent of regional generation and 80 percent of the regional transmission. BPA shares low-cost benefits of the Northwest hydropower system with residential and small farm customers of regulated electric companies.
- **Federal Energy Regulatory Commission (FERC)** oversees wholesale transmission and is implementing the 2005 Energy Policy Act (EPAAct).

Post-deregulation era

The electric industry today is recovering from efforts to deregulate and restructure the industry in some states and at the national level. The federal government, as well as a number of states, implemented policies based on the theory that lower costs would result if utilities sold their generating plants and operated as “electric pipelines” that distributed electricity to customers. As a low-cost state, Washington did not pursue a restructuring policy, but the national movement significantly affected the utilities operating here. California restructuring

disrupted western wholesale power markets. The prospect of restructuring created uncertainty and risk that discouraged investment in new generation and transmission resources.

The deregulation debate has subsided and the environment has stabilized to a certain extent, but in its wake are higher and more volatile energy prices and capital markets less willing to assume that utility investment is low risk. Utilities are now more certain about their responsibilities going forward and are playing “catch up” in planning new generation resources to meet growing customer demand. The result has been increased utility investment in new infrastructure, with more frequent rate cases and power cost adjustments. In addition, integrated resource planning – finding the lowest cost way of meeting future demand - has grown in importance as a key process that both guides utility decisions and informs later regulatory review of investments and programs.

Slipping corporate credit ratings

One effect of deregulation was a negative impact on utilities’ credit ratings. Rating agencies downgraded electric utilities for a number of reasons, including: lingering effects of the western power crisis, uncertainty regarding approval of cost-recovery from regulators, performance of unregulated subsidiaries and, in some cases, perceived risk that the utilities would be unable to recover their investment in power plants if customers switched to independent generation sources. This, along with the decline of the independent energy sector, has created a credit crunch in the industry

Electrical utilities are now more certain about their responsibilities and are playing “catch up” in planning new generation resources to meet growing customer demands.

that continues to some extent today. In the aftermath of Enron there is a less liquid energy market, and utilities have fewer choices regarding hedging and resource options.

Aging infrastructure

Much of the natural-gas pipeline and distribution system was built during the 1950s and 1960s when natural gas first became available in this region. These facilities are now reaching the end of their useful lives. The electric generation transmission and distribution systems are also aging and in need of upgrades and replacement to meet growing customer demands.

Increases in natural-gas prices

Over the last few years, natural-gas prices rose to record high levels as demand outpaced supply. While these prices have declined recently, high prices adversely affect businesses and consumers who use natural gas for industrial processes, heating and cooking. They also affect electric consumers, because virtually all generating plants added to the electric grid in the past decade have been gas-fired turbines.

Corporate reorganization

Congress in 2005 repealed laws that prevented the formation of large holding companies owning multiple electric utilities. Many observers expect the industry to consolidate. Washington State has already seen this with the acquisition of PacifiCorp by MidAmerican Energy Holdings, which owns electric utilities in the Midwest. Avista Utilities has proposed reorganizing as a holding company.

Changing federal regulation

The 2005 federal energy legislation requires utilities and regulators to consider new utility service standards. FERC is actively developing rules that would affect the transmission systems and power trading operations of Washington utilities.

Environmental expectations

Utilities are likely to face limits on the environmental effects of power generation. Policymakers and citizens increasingly expect utilities to rely more on renewable sources, such as wind or solar and on improved energy efficiency to meet the need for new resources. Regulated electric utilities are making significant investments in wind power and conservation which, with higher fossil fuel energy prices, are becoming cost-effective fossil fuel alternatives.

Changing regional electricity policy

The region's transmission system is vital to Washington's utilities. The Pacific Northwest has struggled for nearly a decade to reach agreement on a new regional organization structure for transmission management, planning and expansion. These efforts may bear fruit over the next two years, so these regional negotiations demand attention from the commission.

Even more importantly, the residential exchange program by which Washington investor owned utilities' residential electricity consumers receive more than \$100 million a year in benefits from the federal power system will be renegotiated over the next two years. Washington will need to work closely with commissions in neighboring states and with BPA to ensure that residential customers of Washington IOUs receive a fair share of federal power system benefits.

Finally, in each of the last two federal budgets, the Administration has proposed significant changes to the marketing of federal power and to the way in which BPA uses revenue to discharge its debt obligations. Washington must work with other regional parties to defend our regional interest in preserving the considerable economic benefit of cost-based federal power.

The UTC regulates 20 local telephone companies and 400 competitive firms, serving 3.6 million Washington customers and generating \$1.9 billion in revenue (2004). The UTC sets rates for incumbents, registers competitive local companies (CLECs), deregulates services as they become competitive, reviews mergers, tracks service quality and resolves customer complaints.

Agency partnerships

The UTC has a reputation for taking a fair, balanced approach to telecommunications issues, whether resolving issues between a company and its customers or between competing companies. For this reason, the UTC is called upon from time to time to facilitate discussions among parties not directly within its jurisdiction. For example, the UTC has worked successfully with local E911 offices and unregulated telephone providers to make it possible for wireless customers to access emergency services.

Other partnerships are important to our future success in telecommunications regulation:

- **Attorney General's Consumer Protection Division** – As telecom markets become more competitive, the UTC will reduce and eliminate its regulation. Unregulated and competitive service will remain subject to the general consumer protection laws of the state, which are primarily enforced by the Attorney General.
- **National Association of Regulatory Utility Commissioners (NARUC)** – Telecom law is increasingly federal law. The UTC can influence federal outcomes, both legislative and regulatory, by working with other state commissions.

- **The Federal Communications Commission (FCC)** is the key federal regulator.

Appraisal of the External Environment

Telecommunications is a vital segment of the state's economy – both in the sense that it is essential to our economic health and in the sense that it is growing and changing. Consumers and businesses increasingly choose wireless and high-speed data services that were considered optional or esoteric just a few years ago. These new services are outside the scope of UTC regulation.

Changes in industry structure

The telecommunications industry is undergoing a complex process of consolidation and entry. Recent consolidations include Verizon's purchase of MCI in early 2006, AT&T's merger with SBC in 2005, and SBC's proposed acquisition of Bellsouth. This consolidation is somewhat offset by the increasing role of other providers. Comcast – a cable television firm - is the largest supplier of high-speed data access to residential customers and in 2006 it began actively marketing voice telephone services in competition with traditional telephone companies. Vonage and other Internet-based telephone companies are offering consumers the option to use high-speed data connections for voice service. Consumers are dropping traditional long-distance services, priced on a per-minute basis, in favor of all-distance packages, wireless services and Internet services.

Qwest remains the state's largest telecommunications provider, but is an ever-smaller player in the national market.

UTC has worked successfully with local E911 offices and unregulated telephone providers so wireless customers have access to emergency services.

In recent years, the industry has seen significant change in federal regulatory policy.

If the AT&T-Bellsouth merger occurs, Qwest will be the nation's No. 3 telecom company but will be only a fraction of the size of Verizon and AT&T. (In March 2006 the market capitalizations of AT&T/Bellsouth, Verizon, and Qwest were, respectively, \$165 billion, \$101 billion and \$12 billion.) While Qwest narrowly averted bankruptcy during the burst of the dot-com bubble, it is the most heavily indebted company among major telecom firms. The weak financial position of Qwest presents a risk to the state's economy, because the company may lack the resources to invest in faster networks. Through the mergers described above, Verizon and AT&T now have a presence in markets served by Qwest. The state may yet benefit from "Bell-on-Bell" competition, something that has not happened despite decades of telecommunications deregulation.

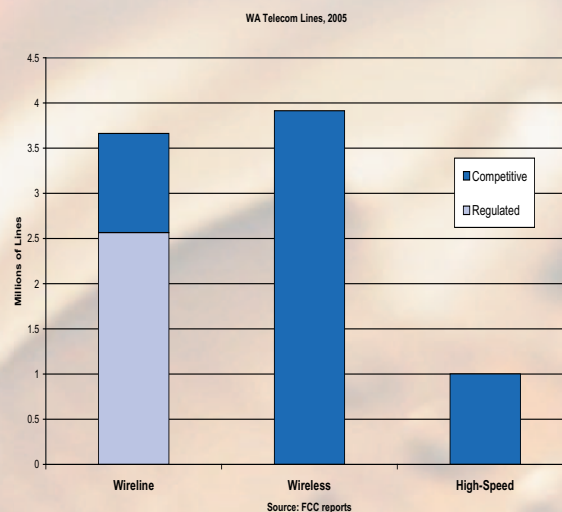
Federal regulatory changes

In recent years, the telecommunications industry has seen significant changes in federal regulatory policy. The Federal Communications Commission (FCC) promoted competitive entry in the 1990s and early 2000s by allowing new competitors to use the networks owned by incumbent telephone companies. However, the FCC changed direction in 2004, removing most open-access requirements after concluding that this policy discouraged network investment by incumbents, particularly investment in high-speed data capacity. The FCC also assumed a larger regulatory and policy role by declaring that data services that connect to the Internet are exempt from state regulation. The results of these policy changes are that incumbent telephone companies (ILECs) no longer need to provide wholesale network services to

competitors and state regulators have no authority over high-speed telephone services.

Diminishing scope of state regulatory authority

The result of these changes is that, while the role of telecommunications in Washington State's economy is growing, the role of the UTC in that industry is diminishing. Services that consumers are increasingly choosing – such as wireless, Internet services, and cable-based services – are beyond the legal jurisdiction of the agency (see chart). The commission has less ability to address public policy objectives such as universal service and consumer protection.



Even where the UTC continues to have jurisdiction, its ability to achieve public policy goals may be constrained by competition. For example, the commission has promoted affordable service in rural areas by allowing regulated companies to collect higher rural costs from customers in urban areas by charging average rates. That strategy may become increasingly unworkable as unregulated competitors gain market share among customers who have been paying the subsidy.



The UTC is responsible for safety regulation for in-state hazardous liquid and natural gas pipelines. In addition, the federal Department of Transportation delegated safety authority to the UTC for interstate liquid and gas pipelines. Work includes inspecting pipelines, company records, investigating incidents, and working with local governments and citizens on pipeline safety issues. The UTC oversees the operations of 27 companies that operate more than 21,000 miles of pipeline.

Major partners

- **Office of Pipeline Safety (OPS)** in the federal Department of Transportation is the major partner in accomplishing our mission. The OPS funds approximately 40 percent of program operations. The funding level is based in part on the congressional appropriation and program performance measures.
- **Department of Ecology (WDOE)** is our major state partner. WDOE has authority over hazardous liquid spills. Hazardous liquid pipeline operators file spill response plans with WDOE.
- **Local governments / first-responder fire and police departments** serve a vital role in public awareness of pipeline safety and are often our partners in incident response. Citizens often turn to local governments for answers about pipeline safety. Because of our targeted outreach, local governments increasingly rely on the pipeline safety program for technical assistance on a wide range of pipeline safety issues. We have provided detailed pipeline maps to first responders. Additionally, cities and counties are key players in a staff initiative to enhance public safety through wise land use decisions adjoining large transmission pipelines.
- **The Citizens Committee on Pipeline Safety** was created by the 2000 Pipeline Safety Act. The committee, whose members are appointed by the Governor, advises the UTC's Pipeline Safety Program and provides advocacy on pipeline safety issues.
- **The Pipeline Safety Trust** is a public interest group that advocates nationally for improved pipeline safety. The trust is funded by criminal fines resulting from the 1999 Bellingham pipeline fire.

The UTC oversees the operations of 27 pipeline companies, with approximately 21,000 miles of pipeline.

In-line pipeline inspection technology, known as “smart pigs,” continues to advance.

Service demands

The number of regulated pipeline companies has been relatively stable for several years, but one or two hazardous liquid pipelines and several small natural gas and/or propane distribution systems, may be added to our inspection duties in the near future.

Williams Northwest Pipeline is replacing pipeline in Western Washington. This project will require significant construction-related inspections.

A damage prevention and enforcement program, with the goal of reducing damage to pipelines by construction and other excavation or drilling, will also add workload.

Where natural gas is not immediately available, developers appear interested in liquid propane gas distribution systems. If such systems meet the statutory criteria for regulation, they may require economic and safety regulation by the commission. Safety regulation of propane distribution would be new to this program.

Federal regulations

Several federal pipeline safety regulations adopted in the past 15 months require more safety planning and action by pipeline operators, which increases our workload. Requirements such as gas transmission integrity management and public awareness guidelines will require staff training and more detailed audits and inspections. The UTC may need to respond to possible increased state responsibilities for education about and enforcement of, damage prevention laws.

Technology

In-line pipeline inspection technology, known as “smart pigs,” continues to advance. This has the potential of improving pipeline safety. However, these tools are very specialized and the interpretation of test results currently is limited to a few experts. Regulators are at a disadvantage because we have to depend on others to assess the safety of pipelines and the operators we regulate. While training can help assure staff that the right tools are being used, the actual analysis of tool results will likely remain outside of the UTC’s expertise.

Another new technology being implemented by operators is “direct assessment,” a procedure where operators perform a risk analysis without using an in-line inspection tool. UTC staff members will need more training to be able to analyze whether this direct assessment procedure is being done properly.



Jurisdiction

A recent review of our jurisdiction by the Attorney General's Office has led to a likely expansion of UTC jurisdiction over some hazardous liquid pipelines and perhaps some natural-gas transmission pipelines. A petroleum pipeline previously thought to be outside the program's safety jurisdiction because of its location on port property may be within it. A limited number of miles of natural-gas transmission pipelines may also be under state, rather than federal, safety jurisdiction.

A larger jurisdictional issue relates to "master meter" systems, small natural gas and propane distribution systems. We are conducting a risk analysis study to identify where these systems are located and determine their risks. This study may result in legislation to expand UTC pipeline safety jurisdiction to minimize risk, while recognizing that the full federal and state regulatory requirements may not be warranted for some small systems.

Public Oversight/Interest

Because of the 1999 Bellingham pipeline fire that killed three young people, our pipeline safety program has a relatively high profile compared to similar programs in other states. The Pipeline Safety Trust, funded by criminal fines resulting from the incident, launched its Web site last year and increasingly uses Washington as its starting point for providing increased access to pipeline operators and inspection data. The pipeline program provides



staff support to the Citizens Committee on Pipeline Safety, created by the 2000 legislation. The committee will continue to play an active role in oversight of the program's activities and policy initiatives.



Because of the 1999 Bellingham pipeline fire that killed three young people, our pipeline safety program has a relatively high profile compared to similar programs in other states.

Solid Waste Regulation

The UTC regulates 56 solid waste collection companies, which generate about \$305 million in revenue.

Its economic regulation includes allowing entry to the industry, setting rates for garbage and recycling collection, reviewing service quality and vehicle safety, reviewing local solid waste plans, and mapping solid waste collection areas.

Solid waste jurisdiction in Washington is fragmented among state agencies and local governments. The UTC regulates solid waste collection in unincorporated areas under RCW 81.77, which directs the commission to authorize entry to the industry (which is a monopoly in any given area), set rates for garbage and recycling collection, and supervise service quality. Cities can choose to provide solid waste collection (directly or by contract), while counties can choose to contract only for residential recycling collection. Commercial recycling is unregulated.

Partners and stakeholders

- **Department of Ecology (WDOE)** prepares and implements the state solid waste management plan. We have developed a good working relationship with DOE staff.
- **Local governments** prepare and implement local solid waste management plans, which we review. The UTC requires regulated haulers to comply with county solid waste management plans and implementing ordinances. We also work with counties to implement recycling revenue sharing programs.
- **Waste collection and recycling industry groups** work with us on a variety of initiatives, e.g. investigating solid waste collection

by unregistered haulers.

- **State Solid Waste Advisory Committee**, created by the Legislature, provides the Department of Ecology a cross sampling of public views and concerns into the department's waste management rulemaking and planning process.

Industry

The industry continues to see a trend of consolidating local and regional companies into larger regional and national companies. There were 85 regulated companies in 1990, but only 56 in 2004. Acquiring companies have kept the local hauler's operating areas and trade names. Consolidations may result in improved accounting, increased ownership expertise and better access to capital. However, reviewing rate requests by larger companies requires additional work to allocate overhead costs and review inter-company transactions.

Economic / Operating Environment

Solid waste collection depends on the use of trucks, so fuel is a major cost. Higher fuel costs have resulted in more frequent filings by regulated companies to recover these costs. The state solid waste management plan proposes many new recycling programs that the UTC will need to work with regulated companies and counties to implement.

Solid Waste regulation includes allowing entry to the industry, and setting rates for garbage and recycling collection.

The UTC regulates the safety of railroads by inspecting railroad crossings and lines for 22 railroad companies (two major railroads and 20 short lines) with more than 3,000 miles of track and 2,658 public crossings. This work includes inspecting railroad tracks, signals and railroad crossings, monitoring company handling of hazardous materials transported by rail, providing grants for crossing improvements and pedestrian trespass prevention, investigating train collisions with vehicles or pedestrians and coordinating Washington Operation Lifesaver, a non-profit public education program.

Major partners

- The UTC works closely with the **Federal Railroad Administration (FRA)**. Four UTC inspectors are FRA-certified to carry out federal inspections in Washington.
- In recent years, as the **Washington State Department of Transportation (WSDOT)** has increased state support for freight and passenger rail transportation, we have begun working more closely with them.
- **Local governments** are consulted by the UTC on proposals to increase train speeds, rail crossing closures, accident investigations and safety grants.
- **Operation Lifesaver**, a national safety education program, provides materials and support for UTC trespass prevention program.

Service demands

The number of railroads regulated by UTC has remained stable. A recent law (Chapter 70, Laws of 2006; ESSB 6679) changed the process for how railroads increase train speeds to include a 60-day notice to local governments and the UTC. Train speeds will

take effect unless the UTC investigation finds a safety reason for not doing so. This may increase the UTC's workload for mainline railroads operating in the I-5 corridor. In recent years we have increased the number and kind of rail safety grants funded from the Grade Crossing Protective Fund. We have also responded to union petitions for rules to protect railroad worker safety.

Federal Regulations

In 2005, the FRA adopted rules regarding quiet zones through local jurisdictions. Although the federal government has preempted states from regulating quiet zones, the federal rules require cities or counties to notify the UTC of proposed quiet zones. In response we participate in a diagnostic team review of the proposed quiet zone area and file comments with the city or county. This new work will continue throughout 2006 and beyond.

Technology

The introduction of remote control locomotives in the rail industry in recent years has introduced new safety issues. As the larger railroads continue expanding use of computers, communications and geographic positioning equipment to reduce operating costs and increase reliability, the UTC expects additional safety issues will arise.

Recent introduction of remote control locomotives has introduced new safety issues.

The UTC regulates privately owned for hire providers and transportation services in a number of transportation industries. The kind of regulation performed varies somewhat by industry segment but generally includes: some level of entry regulation, varying from strictly limited entry to simple registration, safety oversight, setting rates and regulating service standards.

The UTC's transportation regulation is carried out by several sections of the agency, including Licensing (entry and registration), Motor Carrier Safety (safety), Solid Waste, Water and Transportation (rates) and Consumer Affairs (service quality). The table below page shows each industry, number of firms and our regulatory responsibilities.

Industry	Number of Firms	UTC Responsibility
Household goods movers	217	Limited entry regulation, limited rate regulation (rate bands), service quality and safety
Airporters and scheduled intercity buses	26	Entry, rates, service and safety
Charter and excursion buses	116	Registration and safety
Nonprofit special needs buses	61	Registration and safety
Intrastate and Interstate Trucking	10,768	Common carrier – Entry, registration and insurance,
Private Ferries	17	Entry, rates and service
Oil pipelines	1	Rates, service and safety
Low level radioactive waste disposal site	1	Rates

Major Partners

Because regulation and ownership of the transportation industry is so fragmented, our external environment is complex. Partners and stakeholders include:

- The **Federal Motor Carrier Safety Administration** is a major partner on safety audits known as “compliance reviews,” a nationally recognized standard for auditing companies’ transportation safety programs.
- **Washington State Patrol (WSP)** and **Commercial Vehicle Safety Alliance** partner on standards for vehicle inspections. The WSP provides the UTC with Motor Carrier Safety Program grant funds.

- **Washington State Department of Transportation (WSDOT)** conducts substantial passenger transportation planning and administers grant programs to subsidize and develop passenger transportation operations within and between communities that do not have adequate transportation services. The UTC regulates the entry of privately owned intercity buses into the market and the rates they charge, while WSDOT has planning and grant-issuing responsibilities. WSDOT has expressed a desire to have the UTC more fully consider WSDOT selections of grantees in deciding whether to issue a certificate. This would require a change in statute.

- **Public sector providers** The Seattle Port Authority (SeaTac Airport) manages the flow of for-hire vehicle passengers into and out of SeaTac International Airport. WSDOT's Washington State Ferries (WSF) and some counties operate passenger ferries.

Service demands

The number of commercial motor carriers supervised by the UTC is relatively stable. While the UTC may receive as many as 85 applications a year for new authority, an equal number often leave these industries. However, new applicants take more staff time in terms of technical assistance and inspections than those already under regulation.

The UTC requires vehicle inspections for all new carriers in the bus industry. For household goods, the UTC provides technical assistance as well as vehicle inspections. Because these industries have a history of limited entry, regulated companies expect the UTC will move quickly and forcefully against any carriers without valid operating permits.

State law directs WSDOT to encourage public transit agencies to coordinate service and otherwise fill in the gaps in public transportation. Sound Transit is making progress in developing light rail that will eventually serve SeaTac Airport and its commuter rail program and rapid bus transit program will provide consumers with additional alternatives to privately owned bus and airport companies. In 2006, the Legislature restructured regional transportation governance in the Puget Sound.

The private sector provides passenger transportation through airporters, scheduled intercity bus companies, charter and excursion companies and non-profit special

needs providers regulated by the UTC. The private sector also provides service through limousines and "for-hire" taxis that are regulated by the Department of Licensing.

Airporters operate to and from airports, on a schedule or on-demand door-to-door. The industry claims it faces substantial competition from private automobiles, private transportation companies (limos and taxis) and publicly funded transportation providers noted in the paragraph above. The industry claims this competition will adequately regulate the fares it can charge and that the UTC needs to allow the industry greater pricing flexibility. The UTC is currently reviewing the industry's concerns.

The Washington State Ferry System, county ferry districts, transit agencies, tribes and UTC-regulated commercial ferries provide ferry service. Until a few years ago, commercial ferry operators operated primarily on economically marginal routes because of the dominance of Washington State Ferries. In 2003, the Legislature created an opening for competition by private commercial ferries on major commuter routes. The UTC approved service on three of the four major potential routes. In 2006, the Legislature created a funding program that limits the involvement of both the Washington State Ferries and the commercial ferry operators in providing commuter-oriented passenger-only service and encourages county ferry districts to become the primary providers. If the new program is successful, commercial ferry operators will again only be able to serve low-volume routes that the state or local governments do not wish to serve.

Private for-profit transportation providers serve a significant share of special needs consumers.

Failure to implement UCR by the deadline will put federal funding for safety activities at risk.

Private for-profit transportation providers serve special needs consumers, such as elderly or handicapped citizens. We do not regulate these providers other than for safety, because private for-profit transportation companies are a very small share of the market. DOT has advocated for legislation to extend UTC regulation to for-profit special-needs transportation companies.

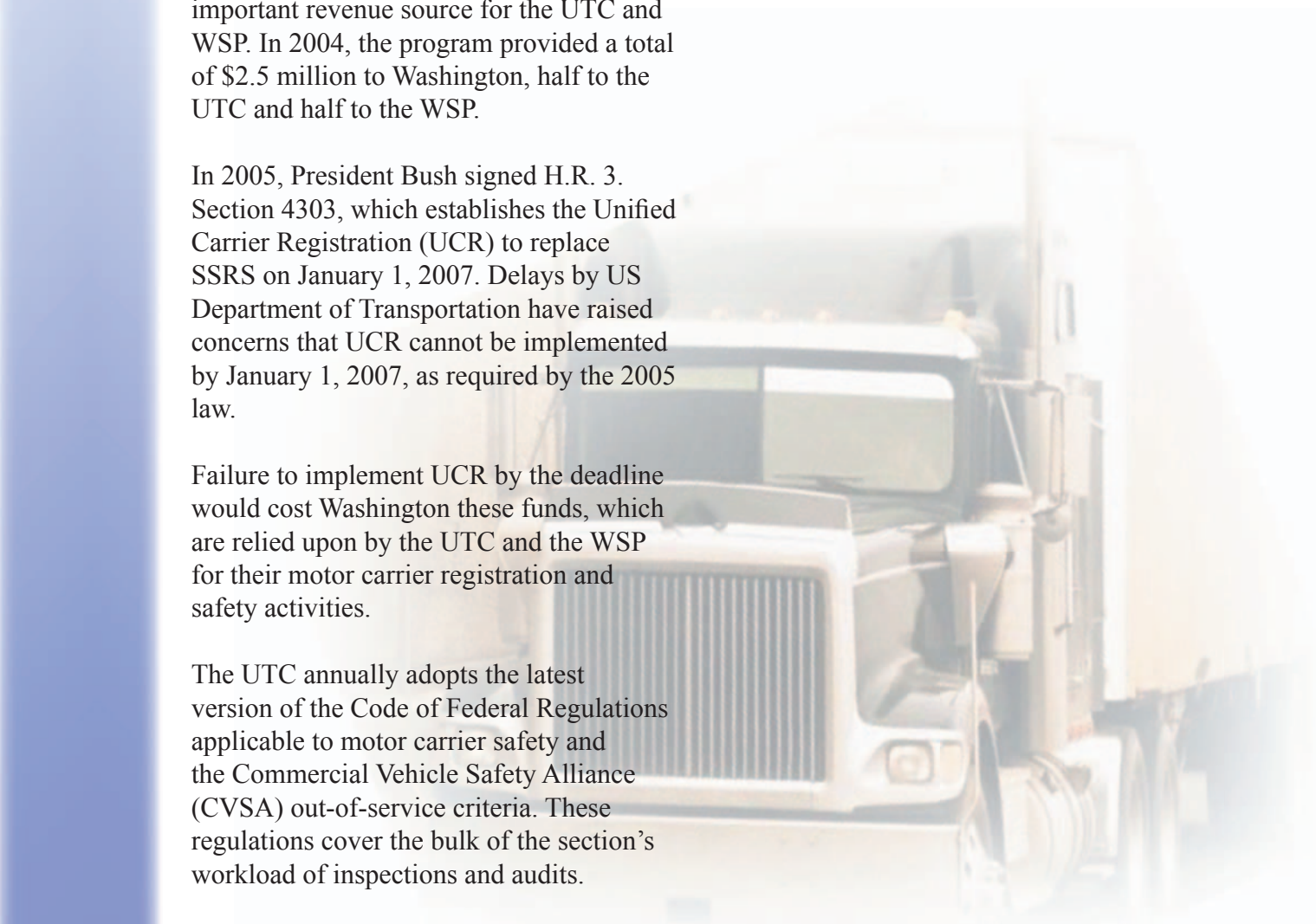
Federal Regulations/Policy

Since 1993, the UTC has participated in a federal program named the Single State Registration System (SSRS). This reciprocal program allows interstate motor carriers to register their federal authority, file proof of insurance and pay fees in their “base state” for travel in all other participating states. This has been an important revenue source for the UTC and WSP. In 2004, the program provided a total of \$2.5 million to Washington, half to the UTC and half to the WSP.

In 2005, President Bush signed H.R. 3. Section 4303, which establishes the Unified Carrier Registration (UCR) to replace SSRS on January 1, 2007. Delays by US Department of Transportation have raised concerns that UCR cannot be implemented by January 1, 2007, as required by the 2005 law.

Failure to implement UCR by the deadline would cost Washington these funds, which are relied upon by the UTC and the WSP for their motor carrier registration and safety activities.

The UTC annually adopts the latest version of the Code of Federal Regulations applicable to motor carrier safety and the Commercial Vehicle Safety Alliance (CVSA) out-of-service criteria. These regulations cover the bulk of the section’s workload of inspections and audits.



The UTC's Consumers Affairs Section helps citizens understand their rights and responsibilities and make informed choices about their use of utility and transportation services. It also monitors company compliance with UTC consumer rules. In an average month, they resolve 260 complaints, respond to 2,000 contacts and, distribute more than 1,000 consumer publications. Each month, this section also notes an average of 300 probable violations of the UTC's consumer rules by regulated companies.

Major partners

- **Regulated Companies:** UTC staff is working closely with consumer specialists in regulated companies to resolve problems and obtain information about circumstances of specific complaints.
- **Consumer Protection Division of the Attorney General's Office (AGO):** Consumer Affairs works with the AGO on a range of issues but most closely on those involving telecommunications companies, classified as "competitive" by the UTC. These companies are subject to less regulation than traditional telephone companies. However, this competitive status also makes them subject to the state Consumer Protection Act. In this sense, the UTC and the AGO share regulation of these companies.
- **Community-based organizations/ local/state government agencies:**



We are developing closer working relationships with public and community-based agencies that serve senior citizens, low-income and immigrant communities. We plan to work with these organizations to distribute UTC-published consumer information and to let customers know that the UTC is a source of consumer information and that it can help them with disagreements involving a regulated company.

- **Federal Communications Commission (FCC):** We work with the FCC, other state public service commissions and the National Association of Regulatory Utility Commissioners (NARUC) to share information, learn about developments in other states and contribute to developing national telecommunications policy.

UTC staff is developing closer working relationships with state and community-based agencies serving senior citizens, low-income and immigrant communities.

UTC staff members receive complaints, comments and inquiries over the Internet and use the UTC Web site to post public consumer information.

Service demands

Qwest has largely addressed the problems that caused significant service disruptions to its customers in the 1990s. As a result, consumer complaints and inquiries are no longer growing at a double-digit rate annually. This has enabled UTC staff members to focus on enhanced public involvement and consumer education and outreach.

The Web has changed customer expectations about service delivery. Customers now expect faster resolutions and responses to their inquiries. They also expect more information to be available when they need it. Staff members receive complaints, comments and inquiries over the Internet and use the UTC Web site to post public consumer information.

We currently receive approximately 5 percent of total public contacts via the Web. We expect this to increase because we recently made our online complaint and public comment forms easier to use.

Federal policy initiatives / changes

Current or expected federal policy initiatives are discussed in the section on regulation of the telecommunications industry. See page 12 (telecommunication regulation).

Technology

The telecommunications industry has seen the most technological change of any regulated industry. Wireless and Internet-based services are taking customers from both traditional and competitive “wire line” telephone companies. UTC staff members will need to keep current on the impact of these new technologies and focus on how we can help consumers with potentially a new set of issues.

The UTC regulates rates of private water companies that serve 100 or more customers or charge more than \$471 average annual revenue per customers. It currently regulates 61 companies that operate about 700 water systems serving 80,000 customers, less than 5 percent of the state's population.

Partners

- **Department of Health (DOH)** The Drinking Water Program is the UTC's primary partner. DOH regulates water quality and quantity for all water systems. Although the UTC has statutory jurisdiction over water quality and quantity, it has entered into a Memorandum of Understanding (MOU) clarifying each agency's responsibility for water quality and quantity.
- **Public Works Board** Department of Community, Trade and Economic Development (CTED), administers the drinking water State Revolving Fund. UTC staff members work with the board and DOH on issues related to regulated water companies.
- **Counties** are the receiver of last resort in receivership proceedings. Several regulated water companies have failed and the courts appointed the county as receiver. Staff works with county government and DOH when a regulated water company is failing.
- We work closely with **accounting firms** that prepare rate requests for regulated water utilities, many of which have been formed by developers to provide water in their housing developments.
- **Customers and homeowner associations** are often active participants in rate filings at the UTC, far more active than customers in other regulated industries.

Industry

The water industry is an increasing cost industry, as many water systems face aging and failing infrastructure. Safe Drinking Water Act water quality standards require new investment in treatment and filtration facilities. These factors drive a need for significant capital investment in the near future. Small water companies generally have limited technical, managerial and financial capacity. Funding is also limited, as they are too small to access capital markets, owners have little equity and their small customer base means few economies of scale. A few firms are professional "satellite" system managers.

Economic / Operating Environment

Several external factors may cause the UTC to regulate more small water companies in the future.

- Stand-alone water systems serve much of the growth in rural areas. More water systems likely means more regulated water systems.
- Because the water industry is an increasing cost industry, average water bills will increase faster than inflation and drive more water companies above the jurisdictional revenue threshold (which increases by an inflation index).
- The Municipal Water Law requires DOH to adopt rules on water use efficiency. The rules will require all companies to consider conservation programs, including installing meters and using conservation rate designs. These programs

The UTC regulates rates of private water companies serving less than 5 percent of the state's population.

may drive additional investment and higher water bills, resulting in more companies falling under UTC jurisdiction.

Political environment

Water has been an important topic in the Legislature the last several sessions. The Municipal Water Law will require all water systems to address water use efficiency and conservation. Those activities cost money and will increase rates.

As water companies move from “flat rate” pricing (no limit on the amount of water) to metered rate pricing, customers are often shocked by higher water bills.

As water companies move from “flat rate” to metered-rate pricing, customers are shocked by higher water bills.

Every year, UTC staff works with legislative staff on non regulated water companies that charge customers higher bills to determine whether the UTC has jurisdiction over the company and its rates.



Performance Assessment

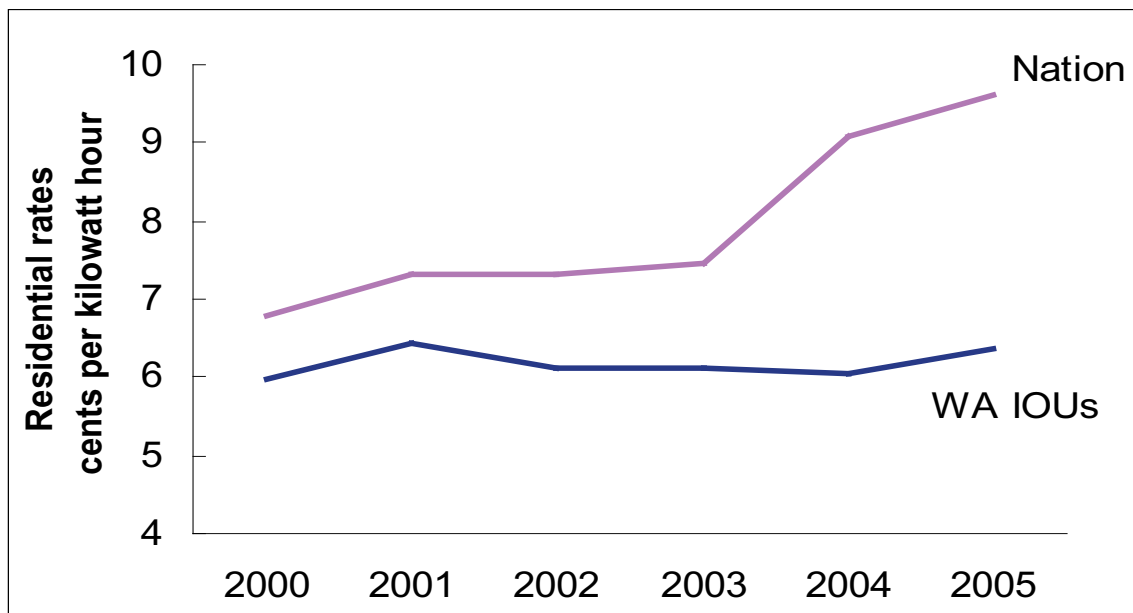
Performance Assessment

As a quasi-judicial agency, measuring performance is challenging. The UTC responds to filings made by regulated companies so it is difficult to know what might come in the door for analysis and decision. The adjudicative processes used for decision making requires the agency to be diligent about not pre-determining outcomes. Nonetheless, we have learned a great deal in recent years about how to begin to measure effective regulation. Governor Gregoire's Government Management and Accountability Performance (GMAP) process has helped us identify data we need to achieve the results we want.

Statewide Results

Improve the economic vitality of businesses and individuals

Energy – Washington investor owned utility (IOU) residential electricity rates compared to national average rate



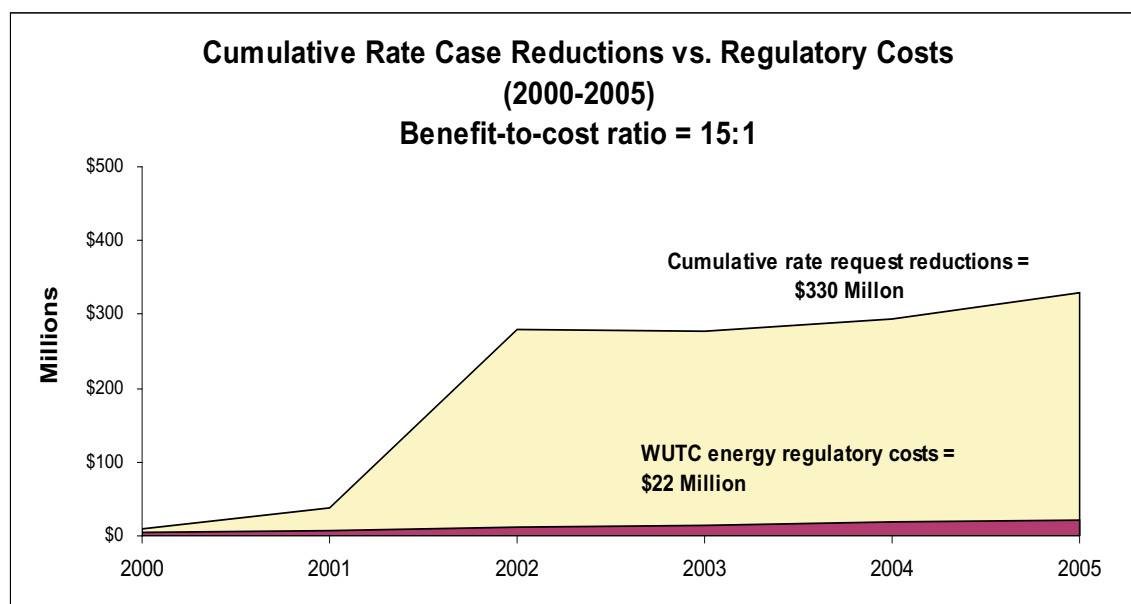
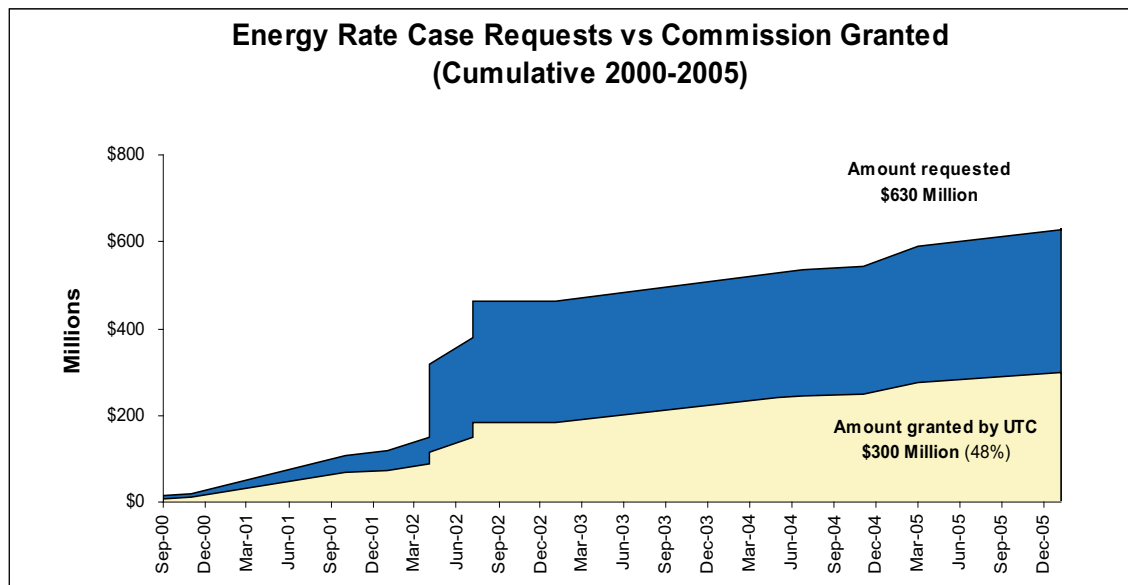
Energy is a vital input to Washington's economic competitiveness and quality of life. This measure shows the average residential rates of investor owned utilities (IOUs) regulated by the UTC, compared to national IOU rates. Although our rates have increased slightly, the rate of change in Washington's electric rates is much less than the increase seen by the average US household.

¢ / kWh	Dec-05	Dec-04	Dec-03	Dec-02	Dec-01	Dec-00
WA IOU avg.	6.38	6.04	6.11	6.13	6.45	5.97
National IOU avg.	9.6	9.1	7.45	7.32	7.32	6.8
WA as % of Nation	66.5%	66.4%	82.0%	83.7%	88.1%	87.8%

Data source: Edison Electric Institute (EEI) *Typical Bills and Average Rates Report, Winter 2006* (April, 2006, and previous editions).

Energy - regulatory benefits and costs, 2000-2005

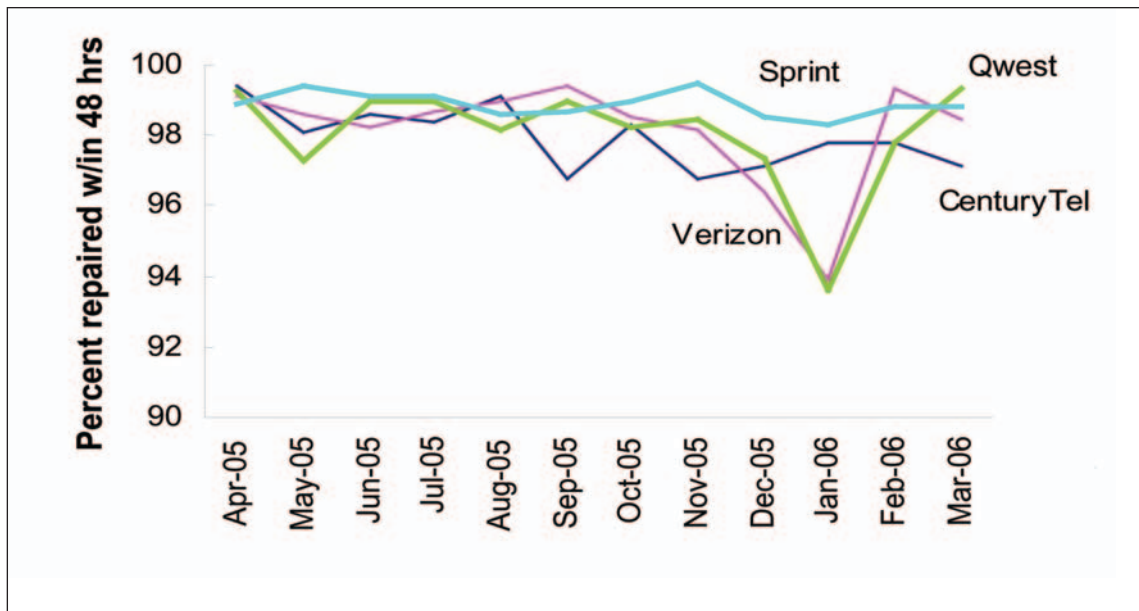
The following charts, from our Energy GMAP presentation, show one way of looking at the “return on investment” for energy regulation. The first chart shows the cumulative amount of rate increases requested by energy companies over the past five years (\$630 million) compared to the amount granted by the commission (\$300 million). The second chart shows the cumulative savings to Washington ratepayers (i.e. \$630 million – \$300 million = \$330 million) compared to the energy regulatory costs to achieve that savings (\$22 million).



Telecommunications: Universal Service - households with telephone service

With **97.4%** of households having telephone service in 2005, **Washington ranked second in the nation**; only Utah has a higher portion of households with telephone service (May, 2006, FCC data, <http://www.fcc.gov/wcb/iatd/lec.html>). In contrast, in 1984 Washington ranked 24th in the nation, with 94.4% of households having phone service. The trend of increasing subscribership in Washington has bucked the national average, which has seen flat or declining percent of households with phones. Although it is difficult to identify precise reasons for this, it could be because Washington telephone rates are low and have not changed for many years, so are declining in real dollar terms.

Telecommunications - Reliable phone service: percent of service interruptions repaired within 48 hours



The Jan. 2006 drop in Qwest and Verizon performance was due to record rainfall in Western Washington that increased demand on technical and repair personnel, making it difficult for them to repair outages within 48 hours. (Data source: Local telephone company service quality reports submitted to UTC).

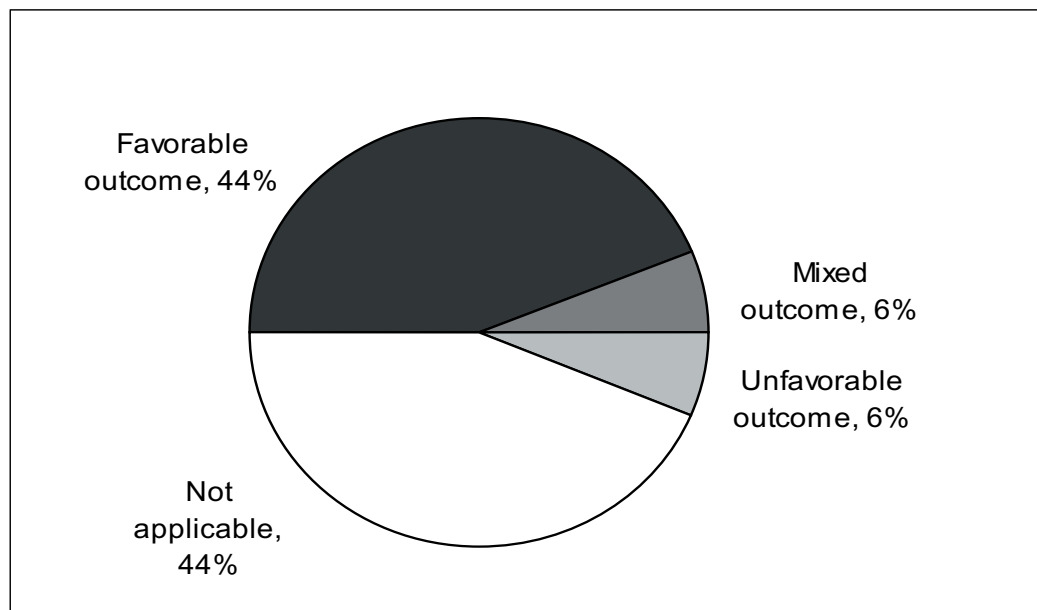
Balancing interests: Investors' perspective

The table below shows state regulatory commissions ranked according to the quality of regulation from an investor's perspective. We interpret the results as showing that UTC regulation is perceived as fair to investors, an important aspect of balancing interests.

Above-average regulator from investor's perspective			Average regulator from investor's perspective			Below-average regulator from investor's perspective		
Stronger	Mid-range	Weaker	Stronger	Mid-range	Weaker	Stronger	Mid-range	Weaker
<none>	ALA FLA IND NC WIS	MISS VA	WASH DEL GA HAWAII IOWA Mass. SC TENN	DC, CALIF HAWAII KY, Maine MD MI, MN NEB NJ, NY NDAK OHIO, OK, OR RI SDAK	AZ COLO CONN IDA, KAN, LA Missouri NH, NM PENN, UT, WYO	ARK ILL MONT NEV TEX VT WV	<none>	<none>

(Source: Regulatory Research Associates (RRA) *Regulatory Focus*, "State Regulatory Evaluations" (April 11, 2006).)

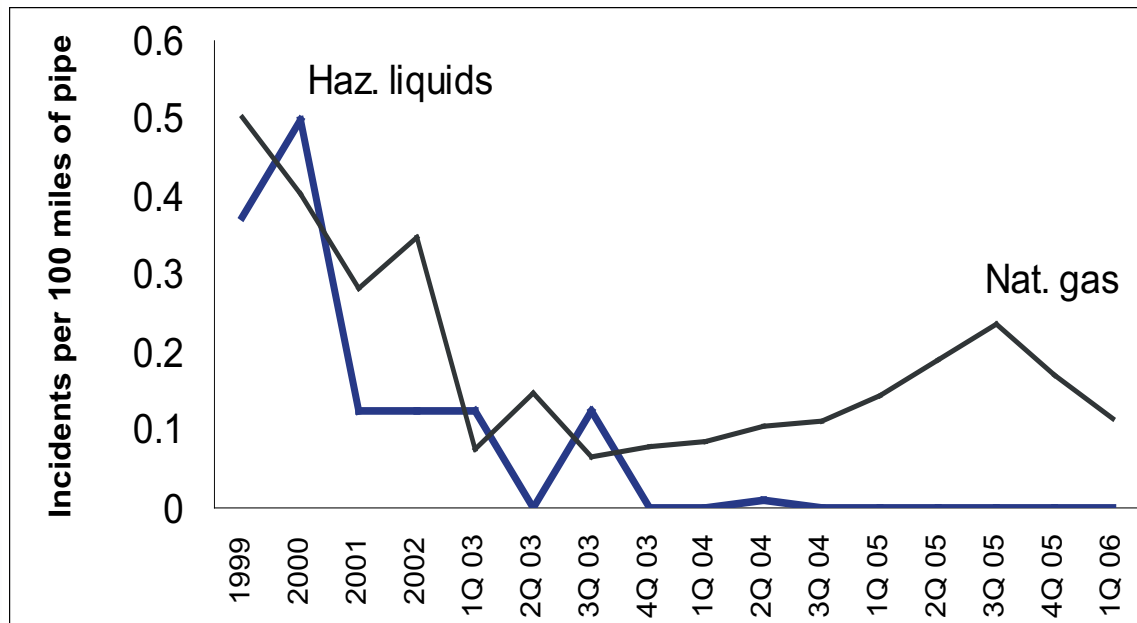
Quality decisions: Percent of decisions upheld on appeal, May 2006 (based on 16 appeals)



Commissioners make decisions in quasi-judicial hearings and an indicator of decision quality is the percent of appealed decisions that are upheld. Our most recent data shows that only one decision has been overturned on appeal recently (a rail-crossing closure in Sprague, WA). Seven decisions were upheld, one had a mixed outcome, and seven others had no action. (Data Source: "Appellate Cases with Litigation Results", Office of Attorney General, May 25, 2006.)

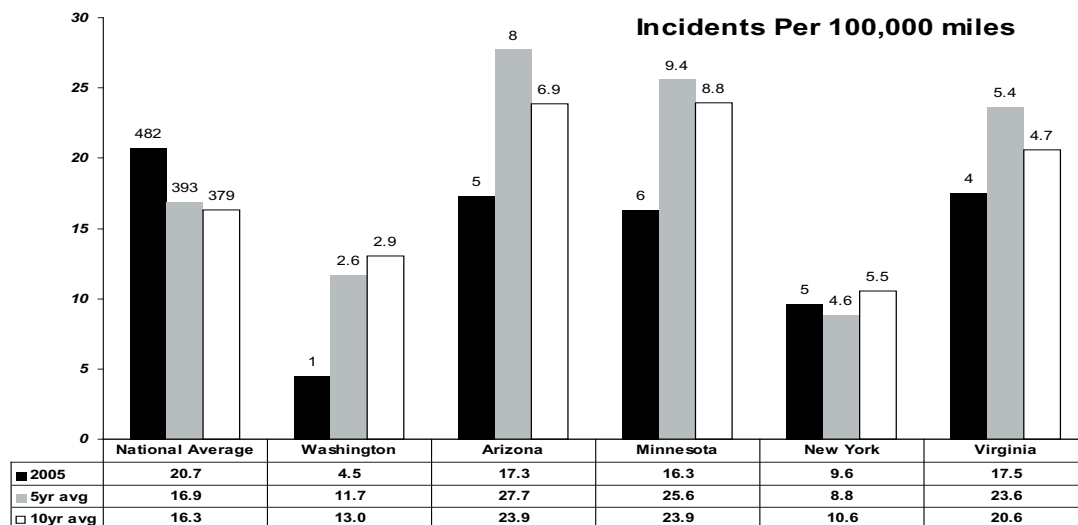
Improve the safety of people and property

Pipeline Safety: Natural gas and Hazardous liquids incidents per 100 miles of pipe

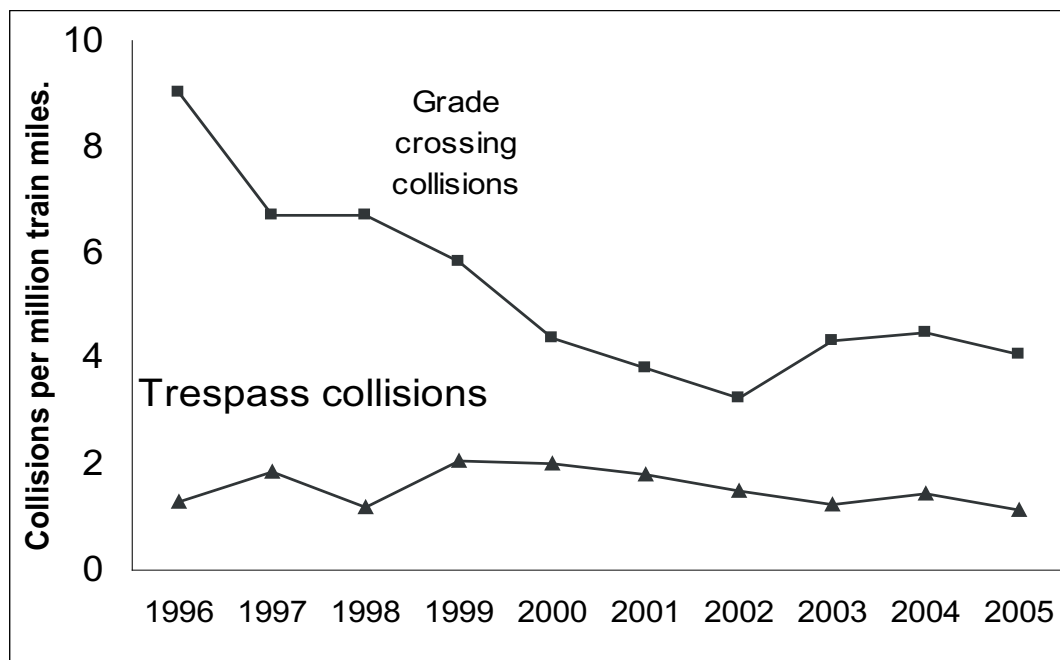


There have been no hazardous liquids incidents for almost two years. The up-tick in natural gas incidents in third quarter of 2005 is due to more stringent reporting requirements instituted by the UTC in August 2005.

In our pipeline safety GMAP, we have begun comparing our performance to similar states (i.e., those that have inspection authority over intrastate and interstate gas and hazardous liquid pipelines: Arizona, Minnesota, New York and Virginia) and the national average for different time periods (one, five and ten years). The chart below, for instance, shows the number of pipeline incidents (as defined in federal law), normalized by stating the results on a common basis (“per 100,000 miles”). Our performance is better than our peers in both absolute numbers as well as the direction of change.

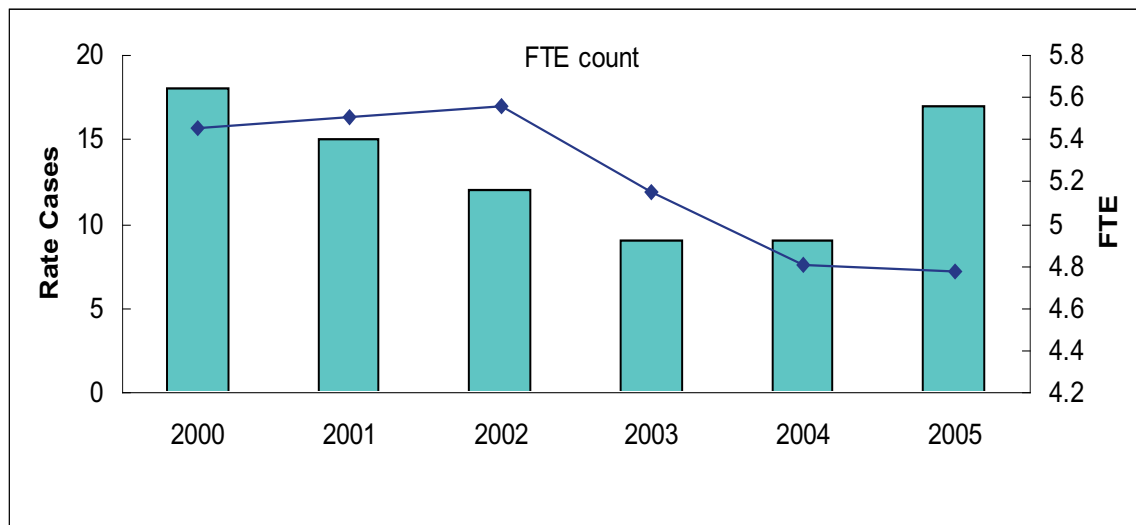


Rail Safety: Crossing and trespass collisions per million train-miles



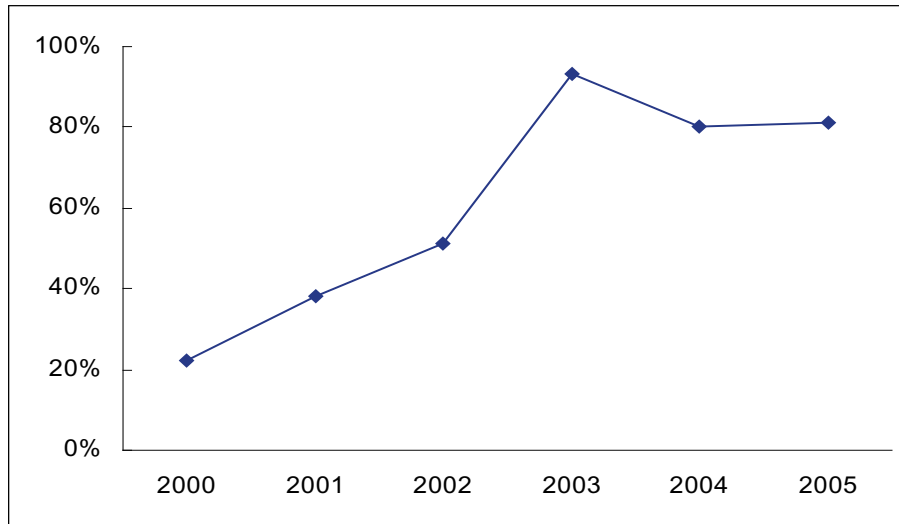
The number of collisions has dropped, even as train mileage has increased. However, we saw a slight increase in fatalities in 2004 due to four fatalities in the Columbia Gorge and four fatalities on bridges. The increase in accidents in the Gorge are associated with increase visitors for Lewis-Clark bicentennial activities. In response, we added warning signs to a number of bridges and will continue our interagency safety work in the Columbia Gorge.

Solid waste – Solid waste rate case filings compared to solid waste staff (FTE)



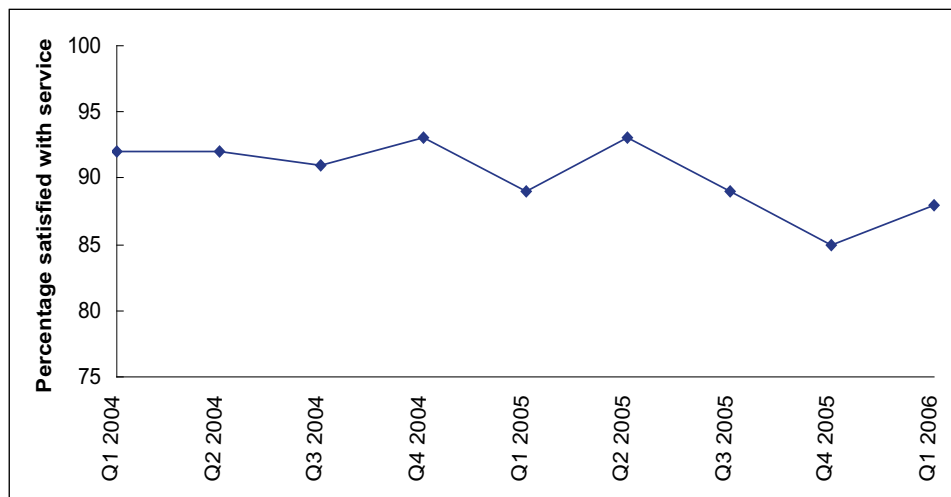
This chart from our Solid Waste GMAP shows that the number of regulatory filings by solid waste companies (shown in columns) has stayed more or less constant for the past six years, while our staffing levels (indicated by the line) have declined. This may indicate higher productivity by our staff, although it is difficult to determine with current information technology.

Transportation safety – Percent of carriers with a current compliance review



“Compliance Reviews” are standardized safety audits used to evaluate the safety practices of companies that provide transportation services. School districts use the data and resulting “safety rating” when they contract with school bus companies. We continue to meet our target of 80% of carriers with a current compliance review, i.e. one conducted within past 2 years.

Consumer Affairs – Percent of customers satisfied with service



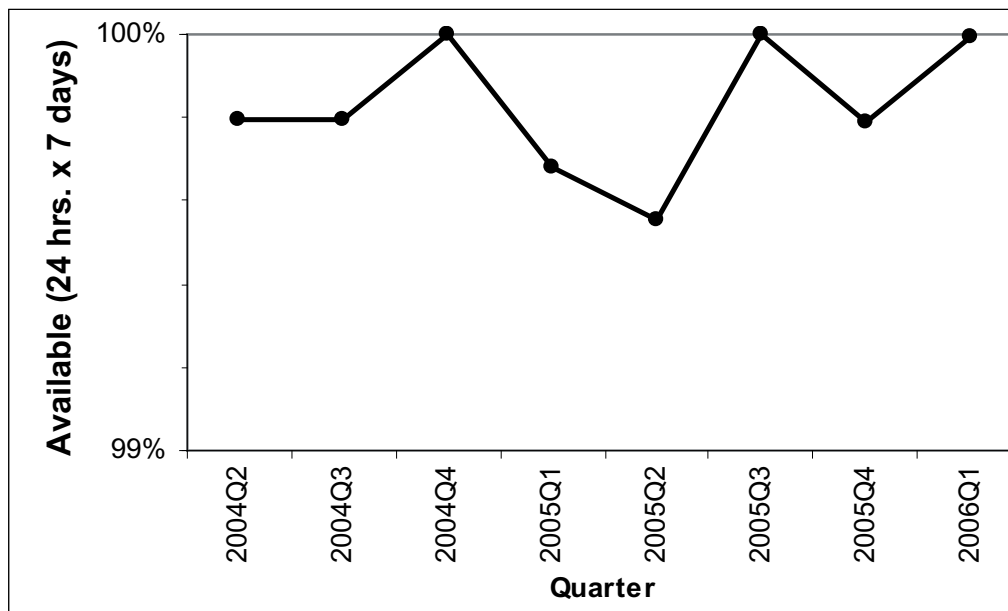
To get feedback about our customer service performance, our Consumer Affairs section sends a seven-question survey to half of the people that have contacted us with complaints. Positive responses to survey questions are averaged to produce this overall measure. Our first quarter 2006 results show an improvement after three out of four declining quarters. We believe the decline in satisfaction may be due to an effort we made in 2005 to clean out a backlog of open complaints. Because these had been open relatively longer, customer surveys showed lower satisfaction rates. Consumer Affairs managers continue to monitor this closely.

Licensing – Percent of trucking permit renewals via UTC web site

Year	Web	Mail	Other
2004	46%	53%	1%
2005	60%	34%	6%

Our Licensing staff process over 8,000 trucking permit renewals in a short period of time (primarily October to January). In 2003, we built a web-based registration system to improve speed, productivity and customer satisfaction. In 2005, we processed 60% of the renewals using this system. “Other” represents either fax or walk-in renewals. The reason for the spike in 2005 was due to a temporary technical problem with our credit-card system that resulted in higher numbers of faxed renewal applications for a six-week period.

Information - Percentage of time the agency Web site is available to the public



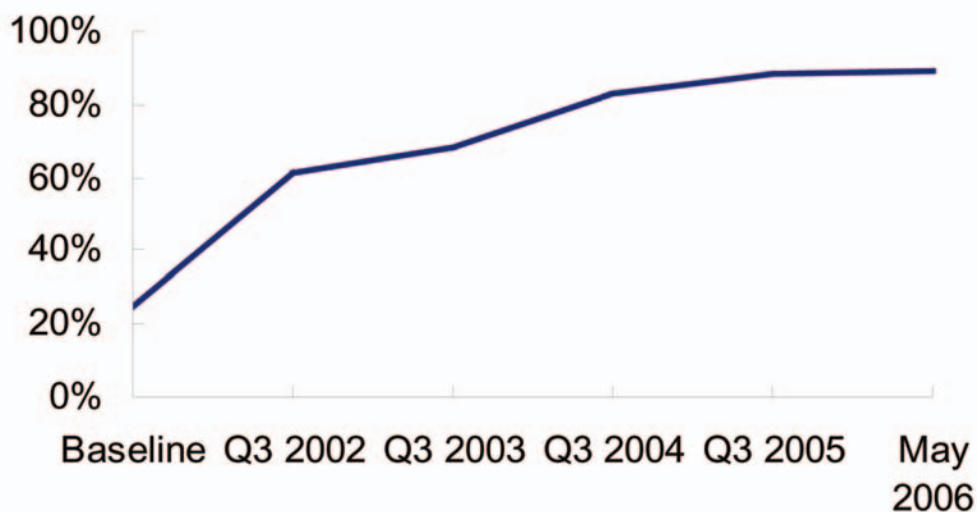
We have achieved our goal of 100% web site availability in two of the last three quarters. The performance decline in the first half of 2005 was due to a key database (UTC- Records Management System), but our Information Services staff focused attention on solving the problem.

Plain Talk - “Annual report notice” improves compliance

The UTC is funded from fees paid every year on May 1 by regulated companies. In 2004, less than half of the regulated companies filed annual reports on time. The first communication that we chose to “plain-talk” was our notice to regulated companies reminding them about annual reports and regulatory fees. The share of companies filing on time jumped from 47% to 61%, which saves us time and cost following up.

	2004	2005
No. of firms filing annual reports	843	894
Reports filed by May 1	395	544
Pct. of reports filed on time	47	61

Human Resources – Percent of employees with a current work plan



In January 2002, we set a goal to have a current work plan in place for each commission employee linking his or her performance expectations directly to the commission’s strategic plan. The strategy was to help each employee see more clearly how their work contributes to successfully carrying out our mission. The measure is the number of work plans submitted compared to the number due for that calendar quarter. We started with a baseline of 25%, with an ultimate goal of 100%. As of May 15, 2006, **89% of agency employees have a current work plan** and development goals in place.

What have we learned from GMAP

We have learned how difficult it is for managers to obtain useful performance data. The UTC information technology platform is currently Lotus Notes and Domino. The UTC has used Lotus Notes as its primary programming language. It is not a relational database, which makes programming inefficient and linking data across separate databases difficult. The UTC 07-09 budget request will include a proposal to move the UTC information platform and e-mail systems from Lotus Notes environment to a system that better meets our business needs and integrates with a broader state environment. This would provide a number of benefits, not least of which is the ability to obtain real-time performance data.

Our experience with UTC GMAP forums has also taught us the value of drilling down in the data. We are learning about what we don't know. The Rail Safety GMAP presentation identified several data technology needs which may improve performance, including plotting crossing and pedestrian accidents on a map to see if there's a geographic focus for accident prevention and tracking processing time for petitions.

The UTC Consumer Affairs section sends a survey to customers who contact us, asking seven questions about our performance in handling their complaint. In the past, responses were aggregated to provide a single "satisfaction" measure. The UTC GMAP session focused on the need to drill down to key indicators of customer satisfaction and to work on improving two of those in particular: timeliness of resolving complaints and explaining outcomes more clearly to customers.

The Transportation Regulation GMAP session demonstrated data supporting what the manager had previously suspected anecdotally: a couple of specific companies take a large amount of staff time to process. This data allows us to focus outreach and training on those companies and also provides a baseline for measuring if the outreach is effective at improving the quality of the companies' rate filings.

Performance results compared to other organizations

The best comparative data we have about outcomes and performance comes from our pipeline safety section comparing Washington to the other four states that regulate both interstate and intrastate gas and hazardous liquid pipelines.

Washington's performance has been improving, relative to both past performance and our four peer states, in terms of:

- Incidents per 100,000 pipeline miles, Washington had the lowest rate in 2005 and second lowest for the five-year period. We are the only state that shows a trend of reduced incidents for all time periods.
- Injuries per 100,000 pipeline miles, Washington's rates are lower than all peers and the national average for both one and five-year periods.
- Damage per mile of pipe, Washington is again lowest among its peers for the one and five-year periods.

Planned Initiatives

How We Make A Difference

Initiative: *Rail safety education campaign.*

Strategy: Prevent collisions between people and trains.

Goal: Protect life and property.

Background: The safety of the public near railroad tracks is an important piece of the commission's rail safety program. In the past five years, trains hit and killed 43 pedestrians and 23 motorists. The commission is committed to reducing train fatalities.

Public education on the dangers of trains and railroad tracks has proven particularly effective in reducing pedestrian and motorist deaths. Deaths of pedestrians and motorists have decreased since the establishment of Operation Lifesaver. Independent studies have credited this decrease, at least in part, to education efforts such as Operation Lifesaver.

The commission provides the state coordinator for Operation Lifesaver, a national organization, committed to safety education. Other funding is provided through grants.

However, as effective as it is, Operation Lifesaver's efforts are limited by the number of volunteers it can recruit and the funds it can raise to carry out its work.

Solution: The commission will conduct a public awareness campaign on motor vehicle and pedestrian safety near railroads to augment public education efforts in Washington. The commission's effort will include:

- Public service announcements on radio, television or both.
- An education effort focused toward the migrant Hispanic community in Eastern Washington in partnership with the Federal Railroad Administration.

Measures: The UTC will measure this effort by successfully completing the following project milestones on time:

- Public service announcements aired by December 31, 2007.
- Contacts with migrant community leaders by December 31, 2007.

Lead Section: Rail Safety Section

Initiative: *Damage prevention enforcement emphasis.*

Strategy: **Enforce existing laws and rules consistently.**

Goal: **Protect life and property.**

Background: Excavation damage is a leading cause of pipeline incidents in the country and state. Washington already has a “dig law” that prescribes the method and consequence associated with digging near pipelines. Although the process is designed to be simple, some parts do not function as well as they could. No agency has direct authority to enforce the state’s dig law. On two previous occasions, however, the commission has collaborated with the state Attorney General’s Office in seeking civil penalties against excavators who flagrantly violated the law. While the state dig law could be improved, particularly its enforcement process, the commission has a responsibility to use its current authority to promote pipeline safety and damage prevention.

Solution: The UTC will support the attorney general in the prosecution of the state’s more persistent, flagrant dig law violators, particularly as it relates to pipeline damage. Each prosecution it undertakes is an opportunity to inform the public and excavators that violation of the law could lead to prosecution.

Other actions the commission may take to strengthen damage prevention efforts include actions against excavators that repeatedly dig without first obtaining a locate:

- Taking pilot enforcement actions.
- Working with Department Labor & Industries to communicate with excavators on worker safety concerns.
- Seeking rule changes for design professionals and underground utility owners to improve protection of underground facilities.
- Working with the local groups to implement the “811” nationwide one-call number.
- Considering changes in state law if needed.

Measure: • Percent of increase in calls to the one-call system in areas where enforcement occurs.

Lead Section: Pipeline Safety Section

Initiative: *Study small gas pipeline systems to determine the right level of safety oversight.*

Strategy: Identify improvements to public policy.

Goal: Protect life and property.

Background: There are hundreds of small gas pipeline systems operating in Washington State. Some may pose a public safety hazard. Our pipeline safety inspectors have found that some of the potentially dangerous systems fall outside of UTC safety oversight while others that pose a minimal risk are subject to regulation. Establishing a rational regulatory regime based on an objective risk assessment for small gas pipelines can improve public safety, avoid unnecessary regulation and ensure consistent pipeline safety regulation.

Solution: We will develop recommendations based on an engineering assessment for those small gas systems that present sufficient risk to the public to warrant safety regulation.

These recommendations will address whether current safety standards should be adapted for smaller systems to improve compliance and focus safety efforts by both the operator and regulator on genuine operational risks.

This solution may require amendment to state law.

Measure: • Completion of study and adoption of recommendations.

Lead Section: Pipeline Safety Section

Initiatives:	<i>Implement the new Unified Carrier Registration (UCR) System.</i>
Strategy:	Ensure interstate motor carriers doing business in Washington are properly registered, financially responsible and safe.
Goal:	Protect life and property.
Background:	<p>Since 1993, UTC has participated in a federally authorized program called the Single State Registration System (SSRS). This reciprocal program allows interstate motor carriers to register their federal authority, file proof of insurance, and pay fees in their “base state” for travel in all participating states. SSRS is an important revenue source for the UTC and Washington State Patrol (WSP). In 2004, the SSRS program provided a total of \$2.5 million to Washington, half to the UTC and half to the WSP. On August 10, 2005, President Bush signed H.R. 3. Section 4303, which establishes UCR to replace SSRS on January 1, 2007.</p> <p>Delays by US Department of Transportation have raised concerns that UCR will not be implemented by January 1, 2007, thereby putting at risk the federal funding relied upon by the UTC and the WSP for motor carrier registration and safety.</p>
Solution:	Timely implementation will ensure the UTC and WSP continue to receive necessary revenue to ensure that interstate motor carriers operate in a safe and financially responsible manner with proper registration. As part of this effort, we will provide education and outreach to affected carriers.
Measure:	<ul style="list-style-type: none"> • Implementation of UCR by January 1, 2007. • Percentage of interstate carriers registered in UCR. • Percentage of 2004 revenue received.
Lead Section:	Licensing Services & Motor Carrier Safety Sections

Initiative: *Target pipeline and motor carrier safety inspections based on risk.*

Strategy: Redesign key business processes to improve efficiency.

Goal: Protect life and property.

Background: Currently the UTC selects motor carrier companies and pipeline operators for safety inspections based largely on the length of time since their last inspection. While the length of time since the last inspection is a risk factor, it is not the only factor the commission might consider.

The UTC has a limited number of field inspectors and needs to ensure that the companies selected for safety audits are those that pose a greater risk of danger to the public.

Solution: The UTC plans to develop a system for assessing risk and uses this when selecting companies for safety inspections. The steps in this include:

- Identifying the operational characteristics of transportation carriers and pipeline operators.
- Identifying objective risk factors.
- Determining whether and how the UTC can collect these data.
- Determining how best to apply these data to identifying companies for inspection.

Lead Sections: Pipeline Safety and Transportation Safety Sections

Initiative:	<i>Improve and streamline regulatory processes for the water industry.</i>
Strategy:	Streamline regulatory process and eliminate unnecessary requirements.
Goal:	Support strong stable industries.
Background:	<p>Most private water companies are very small. Owners have little technical and managerial expertise and they have limited financial resources to hire knowledgeable consultants. Rate cases are often challenging for both the companies and UTC staff because the owners have little or no knowledge of the regulatory process or regulatory principles and they do not maintain or provide sufficient financial and operating information. Litigating issues in a rate case is also expensive for both the commission and the company, which passes on its costs to customers.</p>
Solution:	<p>UTC staff will work to educate company owners and consultants regarding the regulatory process, regulatory principles and accounting requirements.</p> <p>The UTC will consider ratemaking rules on rate design, equity and capital structure to simplify and streamline rate setting process.</p> <p>It will also consider alternate rate setting methodologies and alternate dispute resolution techniques to help simplify and streamline the rate setting process.</p>
Measure:	<ul style="list-style-type: none"> • Percentage of rate case filings that comply with rule requirements. • Time required to audit rate cases that are complete and accurate compared to rate cases that require auditors to develop supporting justification.
Lead Section:	Transportation and Water Section

Initiative: *Improve and streamline regulatory processes for the solid waste industry.*

Strategy: Streamline regulatory process and eliminate unnecessary requirements.

Goal: Support strong stable industries.

Background: Solid Waste rate cases have been analyzed on a case-by-case basis, which may have resulted in some differences among companies in the way specific items are treated for ratemaking purposes.

Solution: The commission will undertake a comprehensive review of the cost-of-service. Overhead allocations and recycling methodologies will ensure consistent treatment and application of regulatory principles and ensure that rates are set consistently for all regulated haulers.

Solid Waste Cost-of-Service Methodology. Evaluate the Meeks cost-of-service methodology and models developed by individual haulers to determine whether they accurately reflect the effects of current recycling programs and still produce reasonable results.

Overhead Allocation Methodology. Analyze the different overhead allocations methods used by different companies in the solid waste industry.

Recycling Programs. Analyze recycling collection and processing allocations, rates and rate setting methodologies used by regulated companies.

Measure:

- For each of the three studies: completion of the study and implementation of the recommendations.

Lead Section: Transportation & Water Section

Initiative:	<i>Simplify rules and related processes for household goods carriers.</i>
Strategy:	Streamline regulatory process and eliminate unnecessary requirements.
Goal:	Support strong stable industries.
Background:	<p>For several reasons, regulation of the household goods industry is cumbersome for regulated companies and, in some cases, for the commission.</p> <p>First, current household goods rules are very prescriptive. Such rules may have been appropriate for a monopoly market. However, in 2000 the commission opened entry to this market and the previous monopoly no longer exists. Investigations of company business practices have shown that the complexity of the rules has made it difficult for regulated firms to comply fully.</p> <p>The application process and related temporary permit period for new entrants is lengthy and involves several different sections within the commission.</p> <p>Finally, commission field inspectors spend considerable time providing technical assistance to new companies.</p>
Solution:	<p>The UTC plans to review current household goods rules in an effort to remove overly-prescriptive requirements and streamline and simplify the rules and processes where possible.</p> <p>In addition, staff members will review new company application processes and, where appropriate, make changes to internal processes that will result in quicker service for companies without sacrificing safety or consumer protection. UTC staff will also review its procedures for providing technical assistance.</p>
Measure:	<p>The UTC will measure this effort by successfully completing the following project milestones on time:</p> <ul style="list-style-type: none"> • Complete review of how it provides technical assistance by December 31, 2007. • Review and revise application process by June 30, 2008. • Review commission rules and have simplified rules in effect by December 31, 2008.
Lead Section:	Transportation Safety, Transportation and Water Sections

Initiative: *Determine right level of regulation for traditional telephone companies.*

Strategy: Streamline regulatory process and eliminate unnecessary requirements.

Goal: Support strong stable industries.

Background: Changes in technology have fundamentally altered the telecommunications industry. Until recently, companies providing “plain old telephone service” enjoyed monopolies in their service areas and states regulated them to ensure that rates were fair, just and reasonable. Today, these same companies face real or potential competition for many services from cable, wireless, Internet and other local exchange companies. As the regulated companies increasingly face competition, the commission must review the need for traditional rate-of-return regulation, the best policies to protect consumers during the transition from monopoly to competitive service and the proper level of staffing and resources during the transition.

Solution: Commission staff will prepare a comprehensive report identifying and analyzing trends in the telecommunications industry, including the degree of competition in the marketplace, the level of customer service, anticipated changes in federal and state law, the need for consumer protection measures and continued universal service programs. It will consult with industry and consumer representatives and other stakeholders in preparing the report. It will use this research to help identify what continued regulation, if any, is appropriate for telephone companies, determine the proper role for the UTC in this changing environment and assess the appropriate levels of staffing and resource allocation for telecommunications-related activities.

Measure:

- A thorough and comprehensive report that can provide the basis for future commission planning for telecommunications regulatory activities, including the allocation of staffing and resources and which will produce initiatives to be included in the 2009-2011 strategic plan.

Lead Section: Telecommunications Section

Initiative:	<i>Move to a new information technology platform.</i>
Strategy:	Use hardware and software that seamlessly connects to employees, customers and other state systems.
Goal:	Use public resources efficiently.
Background:	<p>A decade ago the commission purchased Lotus Notes for its Web host, e-mail, calendar and application development. Most other state agencies have gradually moved toward a more Microsoft centric environment and as they begin developing enterprise applications, the UTC's current dependence upon Lotus Notes causes interface complexities and concerns.</p> <p>Lotus Notes has been used as the UTC's primary programming language. Lotus Notes is not a relational database, which makes programming inefficient. The use of Lotus Notes has also prevented the agency in a few instances from using standard off the shelf packages that would have met the users' needs faster and better. In these cases, the UTC has been required to develop an in-house application in Lotus Notes.</p> <p>Interfaces with other state systems, such as Human Resource Management System and Travel Voucher System, have presented unique problems and required additional resources.</p>
Solution:	Gradually begin to move to the Microsoft standard for the network, e-mail, and calendar applications. Gradually move custom applications off Lotus Notes into a new development environment, which will allow the use of relational database application development, well-organized storage and effective and accessible reporting.
Measure:	<ul style="list-style-type: none"> • Successful move off Novel to Microsoft network. • Successful implementation of Microsoft Active Directory. • Successful implementation of Microsoft Exchange e-mail and calendaring. • Begin initial planning to move customized applications off Lotus Notes.
Lead Section:	Information Services Section

Initiative: *Integrate sustainable practices into commission operations.*

Strategy: **Move to business practices that protect and enhance of our environment.**

Goal: **Use public resources efficiently.**

Background: The sustainability executive orders establishes goals agencies must achieve to move the state towards a sustainable environment. These goals set an example for the rest of the state.

Solution:

- Reduce fuel usage through reduced commuting, more fuel efficient cars and the use of technology.
- Reduce the amount of paper used through double-sided printing recycled paper, and electronic distribution of information.
- Reduce the amount of energy the commission consumes through implementing energy efficiency measures in the building and encouraging alternative renewal energy sources through the purchase of green tags.

Measure:

- Percentage of resources usage reduction.
- Percentage of paper reduction.
- Percentage of energy reduction.
- Percentage of employees using non-single occupancy vehicles to and from work.

Lead Section: Administrative Services Division

Initiative:	<i>Implement the ColumbiaGrid proposal for coordinated planning and operation of regional transmission systems.</i>
Strategy:	Improve utility access to least-cost energy resources by enhancing our transmission systems.
Goal:	Protect consumers from poor service and unfair rates.
Background:	The Pacific Northwest's transmission grid is encountering stress and operating at levels that test its reliability limits. Additional transmission capacity may be needed for utilities west of the Cascades to access renewable and thermal generating resources east of the Cascades. Efforts to improve the planning, expansion, management and operation of regional transmission over the past 10 years have not been successful. Recently, BPA and five Washington-based utilities, have initiated a new regional effort called ColumbiaGrid to propose and implement improvements to the grid. The UTC will play an important role in this new effort.
Solution:	We will work with BPA, public utility and investor-owned utility control areas and other stakeholders on implementing the ColumbiaGrid proposal for coordinated planning, expansion and operation of the Pacific Northwest transmission systems. A more capable and reliable transmission system will allow utilities greater access to remote resources to meet the goals of their integrated resource plans. Ultimately, this will benefit customers through lower rates, greater resource diversity and greater use of renewable resources.
Measure:	<ul style="list-style-type: none"> • Participation in ColumbiaGrid advisory meetings and working groups.
Lead Section:	Policy Section

Initiative: *Work with regional partners to fairly implement the residential exchange program.*

Strategy: Preserve access to the benefits of the federal power system for customers of investor owned utilities.

Goal: Protect consumers from poor service and unfair rates.

Background: The residential exchange program provides residential and small farm customers of investor owned utilities share of the benefits of the Federal Columbia River Power System. The program derives from the 1980 Pacific Northwest Regional Planning and Conservation Act. Currently (2006) the customers of Washington investor-owned utilities receive approximately \$205 million in annual benefits via direct rate credits on their bills. BPA is currently developing policy for the residential exchange program contracts that will begin in 2012. It is important for the UTC to work with the utility commissions of Oregon, Idaho and Montana as well as the investor owned utilities to negotiate a fair level of benefits for residential customers.

Solution: Secure for the 1.2 million Washington residential customers served by investor owned utilities a fair portion of the benefits of the cost-based federal power system.

Measure:

- Participation in BPA policy development (meetings, written comments, negotiation sessions). Ultimately, a reasonable probability in post 2012 contracts of annual benefits falling between \$140 million and \$180 million for residential customers of Washington investor owned utilities.

Lead Section: Policy Section

Initiative:	<i>Improve vegetation management to limit the number of distribution failures.</i>
Strategy:	Encourage electric utility investments that improve system transmission and distribution reliability.
Goal:	Protect consumers from poor service and unfair rates.
Background:	<p>Every year storms cause outages, mostly from falling trees. Each winter there are several major storms that cause extended electrical outages. This is especially true in more remote areas. In the early 1980s Puget Sound energy instituted its “Tree Watch” program which has significantly reduced the amount of storm related outages. One challenge will be identifying the most appropriate level and type of reliability investment. For example, it may be cheaper for extremely outage-sensitive residential consumers to purchase and install a backup generator than it would be for the utility to provide higher reliability.</p>
Solution:	<p>Utilities have recently increased their attention to vegetation, mostly by trimming trees and moving vulnerable distribution system components out of harms way. The energy section will consider the following options to increase utility investments in activities that improve system transmission and distribution reliability include:</p> <ul style="list-style-type: none"> • Allowing recovery of cost-effective vegetation management investment and expenses in rate cases. • Requiring utilities to evaluate the costs and benefits of placing vulnerable facilities underground. • Negotiating vegetation management programs as part of rate case settlements. • Setting performance-based rates that depend in part on reliability outcomes. • Defining utility-specific reliability benchmarks and associated penalties, similar to PSE service quality plans, as part of rate case resolutions.
Measure:	<ul style="list-style-type: none"> • Medium and long-term trends in the number and duration of storm-related outages. <i>Data Source: Reliability, service quality and annual storm damage reports currently filed by electric utilities.</i>
Lead Section:	Energy Section

Initiative:	<i>Set targets for operation and maintenance expenditures in equipment problem areas.</i>
Strategy:	Encourage electric utility investments that improve system transmission and distribution reliability.
Goal:	Protect consumers from poor service and unfair rates.
Background:	Every year equipment failures cause recurring energy outages and voltage fluctuations. We believe that these can be minimized by encouraging utilities to set targets for system operations and maintenance expenditures and replacing equipment in known problem areas. The challenge will be identifying what level of reliability investment is cost-effective.
Solution:	<p>The Energy section will consider the following options to increase the level of cost effective spending on reliability investments:</p> <ul style="list-style-type: none"> • Requiring utilities to develop an evaluation procedure to identify infrastructure with an unreasonably high failure rate. • Requiring a section of the utility reliability reports to include planned reliability capital investment and operation and maintenance expenses • Allowing recovery of cost-effective equipment reliability investment and expenses in rate cases. • Negotiating non-storm-related reliability management programs as part of rate case settlements. • Setting performance-based rates that depend in part on reliability outcomes. • Defining utility-specific reliability benchmarks and associated penalties, similar to Puget Sound Energy's service quality plans, as part of rate case resolutions.
Measure:	<ul style="list-style-type: none"> • Medium and long-term trends of the number and duration of outages and voltage problems. <i>Data Source: Reliability reports.</i>
Lead Section:	Energy Section

Initiative:	<i>Better inform the public about the role of the UTC and the services available.</i>
Strategy:	Increase the effectiveness of the UTC's safety and consumer activities.
Goal:	Protect consumers from poor service and unfair rates.
Background:	<p>Data shows that many Washington State consumers are not aware of the UTC or the role it plays in regulating utility and transportation companies. When consumers have disputes with their utility or transportation company, they often don't know where to turn for help or assistance.</p> <p>Establishing an education and outreach program is important because it will provide consumers with information on how best to handle their utility and transportation service needs. It will also provide consumers with information on how to contact the UTC for assistance in resolving disputes with their companies.</p>
Solution:	<p>The UTC staff will review all agency educational and informational materials to ensure that information is accurate and plainly written. This will include fact sheets, brochures, a quarterly newsletter, news articles and consumer web pages. Staff members will track new consumer issues and develop new publications or update existing ones when needed. The program will partner with other consumer protection organizations to promote the publications to a wider range of consumers.</p> <p>The UTC will promote its services to community-based organizations and state agencies that have a consumer protection or social services focus. Staff members will send outreach packets to these groups providing a detailed explanation of the outreach program and the assistance the commission provides. It will attend public events to explain to consumers the commission's regulatory authority and consumer affairs services. It will also provide presentations to consumer groups.</p> <p>Finally, staff members will track how consumers learned about the UTC. It will develop a cost/benefit model for outreach events and determine which events offer the most value for UTC participation. Together with tracking how the consumers learned about the UTC, staff members will identify effective methods to promote the agency's services.</p>
Measures:	<p>Track the following data:</p> <ul style="list-style-type: none"> • From consumers who call the UTC, how they knew to call the agency. • The number of requests for presentations and attendance of functions. • The number of consumers that commission staff speak to at public events.
Lead Section:	Consumer Affairs Section

Initiative: *Increase the amount of safety and consumer-related information available at the UTC Web site.*

Strategy: Increase the effectiveness of the UTC's safety and consumer activities.

Goal: Protect consumers from poor service and unfair rates.

Background: The commission holds considerable safety-related information about the companies it regulates. Washington consumers could use this information to help them make a number of decisions. For example: Is there a high-pressure pipeline near the house I am thinking of buying? My friends and I want to charter a bus to go to a Mariners game –what are the safety ratings of the companies we are considering? I need to hire someone to move my belongings. Which household goods companies serve my area have had the fewest complaints?

The UTC maintains some of this information in databases and some in paper files. However, very little of it is accessible to the public from the Web site.

Solution: The UTC staff completed an information audit of the commission's safety and consumer-related sections. One purpose of the study was to identify information to which the public needs access to. The next step is to make the following information accessible online:

- The safety rating of each transportation company.
- Maps showing the location of high pressure pipelines.
- Documents related to interstate pipeline inspections and incident investigations.
- Information related to UTC investigations of regulated companies regarding non-compliance with UTC rules.
- A statistical report about intrastate pipeline incidents.
- Consumer complaint statistics by company.
- Rail accident investigation reports.
- State rail inspection data maintained at the Federal Railroad administration's Web site and state pipeline incident data maintained at the federal Office of Pipeline Safety Web site.
- All inspection checklist forms and any written technical assistance materials.

Measure: The percentage growth in the number of visits or downloads from the safe and consumer pages on the UTC Web site.

Lead Sections: Transportation Safety and Pipeline Safety Sections

Initiative:	<i>Prepare the UTC for performance management certification by the Department of Personnel (DOP).</i>
Strategy:	Ensure employees have the information, tools and skills to effectively perform their jobs by establishing a performance-based environment.
Goal:	Develop, recruit, retain and value a high quality, diverse workforce.
Background:	<p>The state of Washington is moving to create a performance-based culture in each state agency.</p> <p>The UTC is also on that path and we have been working towards achieving DOP performance certification. As part of this effort, we have recognized that managers have a critical role to play in making this transition.</p> <p>To that end we have established a single set of competencies that apply to all management positions at the UTC. This year we also developed a minimum set of expectations against which managers will be evaluated.</p>
Solution:	<p>Emphasis on performance and accountability has already had good results at the UTC. As we make this transition, we believe our managers will benefit from newly created leadership training now offered by DOP.</p> <p>Managers are currently updating all position descriptions so that these reflect the competencies identified through the job analyses we completed last year.</p> <p>Also, timely setting of performance expectations and evaluation against those expectations will enhance positive communication and ensure employees have the tools, information and support to do their jobs effectively.</p> <p>Finally, we plan to develop new ways to recognize employees for their achievements.</p>
Measure:	<ul style="list-style-type: none"> • Percentage of employees with current position description on file. • Percentage of position descriptions reflecting expected competencies. • Percentage of managers trained in leadership. • Survey employees to see what type of recognition would be the most meaningful. • Compare recognition rating annually with the statewide Employee Survey.
Lead Section:	Human Resources Section

Initiative: *Implement adopted interconnection standards for electric utilities.*

Strategy: Encourage electric utility investment in diverse supplies.

Goal: Promote environmentally responsible energy production and services.

Background: Most utility observers accept that there is a significant amount of small-scale generation capacity nominally connected to the grid but outside the control of utilities (e.g., small-scale wind and solar generation). Owners of these resources have generally been unwilling to make them available to utilities due to difficult interconnection requirements. Likewise, utilities have hesitated to rely on these resources for planning purposes given uncertainty of whether they would be available when called upon. The recently adopted interconnection regulations are intended to standardize the rights and responsibilities of both utilities and generation owners.

Distributed generation has the potential to diversify energy utility resource portfolios and promote the use of small-scale renewable energy resources. The addition of smaller resources to utility portfolios could better match investments with moderate growth in demand. (This is a very real problem for utilities that historically invested in resources much larger than their immediate need due to economics of scale and the responsibility to cover load growth over time.) Smaller resources could also reduce operating risk because not as much is at stake when any one of them goes down.

Solution: Require utilities to fully implement these new rules. Potentially include distributed generation assets within utility integrated resource plans. Require plans to appropriately model location, reliability and features of distributed generation. Investigate remaining obstacles to utility access to this resource.

Measure:

- Increase in each utility's interconnection of distributed generation resources.

Lead Section: Energy Section

Initiative:	<i>Include renewable, alternative fuel and conservation resources in utility resource planning.</i>
Strategy:	Broaden the types of technologies used to meet customer demand.
Goal:	Promote environmentally responsible energy production and services.
Background:	Generally, traditional hydro/thermal generating resources have an advantage over renewable, alternative fuel and conservation resources due to familiarity, dispatch ability and established cost recovery expectations. However, a resource portfolio solely consisting of hydro and natural-gas resources would be overly vulnerable to certain risks such as drought or large swings in the price of natural-gas. A well-diversified and balanced portfolio of traditional, renewable, alternative fuel and conservation resources helps to protect the utility and its customers from an unhealthy concentration of risk at a reasonable cost.
Solution:	Require utilities to fully evaluate and fairly compare non-traditional renewable, alternative fuel and conservation resources as they develop a preferred resource portfolio as part of their integrated resource planning.
Measure:	<ul style="list-style-type: none"> • As part of the UTC's integrated resource process, determine whether the utility adequately assessed traditional, renewable, alternate fuel and conservation resources. • Assess the long-term trend in the amount of renewable energy, alternative fuel and conservation (e.g., both MW and MWh) included as part of utilities' preferred resource portfolios. • Comparison of the acquired amounts of renewable energy, alternative fuel resources and conservation with amounts identified in the IRP's two-year action plan. This should indicate a rational relationship. Unexplained differences could suggest modifications are needed in the IRP process.
Lead Section:	Energy Section

Initiative: *Consider standards that may encourage renewable energy, increased efficiency and conservation.*

Strategy: Meet state obligations under the 2005 federal Energy Policy Act.

Goal: Promote environmentally responsible energy production and services.

Background: The Energy Policy Act of 2005 established five new Public Utility Regulatory Act (PURPA) standards. These are federal standards affecting retail electricity service that have the potential to increase development of renewable energy, increase efficiency of existing fossil fuel plants and promote energy conservation:

- Net-metering: The ability of customers to generate on-site power sufficient to meet their needs and feed excess back to the utility for a credit against their bill.
- Resource Diversity: A requirement that utilities plan their resource portfolios to avoid reliance on a single resource or fuel type.
- Fossil Fuel Efficiency: A requirement that utilities improve the generation efficiency of their fossil fuel plants.
- Advanced Metering and Time-based Rates: A requirement that utilities install advanced metering for all customers and offer rate schedules differentiated by time of use.
- Interconnection: A requirement that utilities offer a clear procedure and conditions for interconnection of customer-owned generation to utility distribution facilities.

The new federal standards may or may not offer incremental benefits for Washington consumers. Such benefits could include reduced cost, more stable rates and support for distributed generation. In most cases, Washington and the UTC already have laws or policies in place addressing the topics of these standards. Nonetheless, state utility commissions are required to consider formally whether to adopt these standards and document their decision in written form.

Solution: As directed by federal, the UTC will consider whether the proposed ratemaking and service standards are appropriate for Washington's investor owned electric utilities.

The schedule for state review varies among the standards. For the first three standards, the commission must commence an examination by August 9, 2007, and make a determination by August 9, 2008.

For the advanced metering/time of use rates and the interconnection standards, the commission must commence an examination by August 9, 2006 and complete it by August 9, 2007.

Measure:

- Timely initiation and completion of rulemaking inquiry, public process, and ultimate determination.

Lead Section: Policy and Energy Sections

Statutory Authority

The UTC regulates utilities under authority granted in Title 80 and transportation companies under Title 81 of the Revised Code of Washington (RCW). The UTC's rules are in Title 480 of the Washington Administrative Code (WAC).

The following chapters authorize the UTC's utility regulatory programs:

- 80.01 - Utilities and Transportation Commission
- 80.04 - Regulations – General, including hearing procedures, annual reports, etc.
- 80.08 - Securities
- 80.12 - Transfers of property
- 80.16 - Affiliated interests
- 80.20 - Investigation of public service companies
- 80.24 - Regulatory fees
- 80.28 - Gas, electrical, and water companies
- 80.36 - Telecommunications
- 80.54 - Attachments to transmission facilities
- 80.60 - Net metering
- 80.66 - Radio communication service companies

The following chapters authorize the UTC's transportation and safety programs:

- 81.04 - Regulations -- General
- 81.08 - Securities
- 81.12 - Transfers of property
- 81.16 - Affiliated interests
- 81.20 - Investigation of public service companies
- 81.24 - Regulatory fees
- 81.28 - Common carriers in general
- 81.44 - Common carriers -- Equipment
- 81.48 - Railroads -- Operating requirements and regulations
- 81.52 - Railroads -- Rights of way -- Spurs -- Fences
- 81.53 - Railroads -- Crossings
- 81.54 - Railroads -- Inspection of industrial crossings
- 81.68 - Auto transportation companies
- 81.70 - Passenger charter carriers
- 81.77 - Solid waste collection companies
- 81.80 - Motor freight carriers (trucking and household goods movers)
- 81.84 - Commercial ferries
- 81.88 - Gas and hazardous liquid pipelines
- 81.108.1 - Low level radioactive waste disposal sites
- 47.76.230 - Freight Rail planning
- 47.76.240 - Rail preservation program
- 19.122.027 - One-number locator services – Single statewide toll-free telephone number